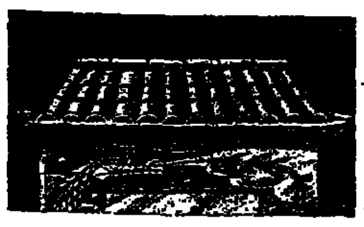
FINANCIAL TIMES

Start the week with...



Management
Keys to Hong Kong's success
John Ridding, Page 10

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Why women like Bill Clinton
Page 16

Today's survey
Mexico
Swiss Banking
Separate section

World Business Newspaper http://www.FT.com MONDAY OCTOBER 28 1996

Bonn coalition strained by FDP attack on Waigel

Tensions in Germany's ruling coalition became public yesterday as high-ranking members of the Free Democratic party – *junior partner* in the ruling coalition – criticised finance minister Theo Waigel. They warned that the coalition was at risk if he proposed rises to cover an expected budget shortfall. Page 18

EU set to close loophole: Brussels is set to close a *value added tax loophole* that has allowed non-EU telecoms companies to undercut *local operators* within the European Union. Page 18

Zaire in turmoil: Half a million Hutu refugees were reported to be on the roads of Zaire, fleeing Tutsi fighters who targeted their camps on the border with Rwanda. Page 5

Talks on 'open skies': Top US and *European Union aviation officials are due to* meet in Washington this week to open talks aimed at ending restrictions on transatlantic air travel. Lex, Page 18

Scores missing in Egyptian collapse: Two people were killed and at least 100 were missing after an 11-storey residential building collapsed in the Cairo suburb of Heliopolis. Prime minister Kamal Ganzouri said 19 survivors had been rescued.

Six held over Irish arms find: A suspected Irish Republican Army arms cache was uncovered by police in the Irish Republic. Six men were arrested, five from Northern Ireland.

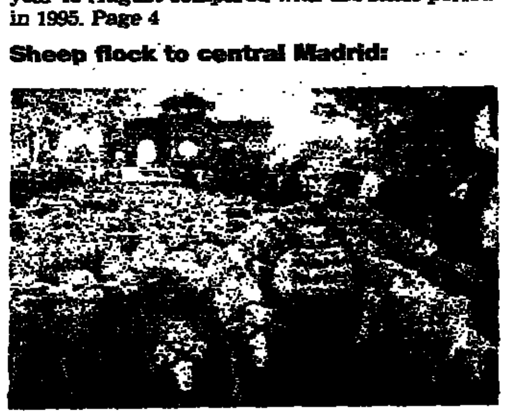
Ambrosiano windfall: Some creditor banks of Italy's Banco Ambrosiano, which collapsed in 1982, are to get an unexpected $65m dividend following the conclusion of legal actions. Page 3

Family quarrel: Benjamin Netanyahu's brother-in-law accused the Israeli prime minister of creating "a national crisis" with his plans to pull Israeli troops out of Hebron. Hagai Ben-Artzi called the plan to pull out of Hebron "an act of deceit". Settlers put trust in God, Page 5

Freed envoy kidnapped again: Yemeni tribesmen recaptured a French diplomat they had released hours earlier. The diplomat and mediators were abducted on their way back to the capital, Sanaa, from the northern region where he was held for six days.

Drugs sales grow: World prescription drugs sales were *6 per cent higher* at $92.6bn in the year to August compared with the same period in 1995. Page 4

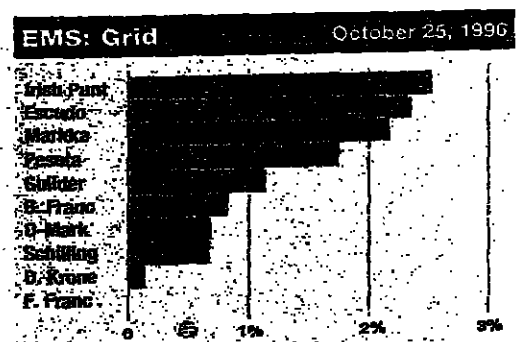
Sheep flock to central Madrid:



Spanish shepherds drive thousands of sheep past the Alcalá gate in central Madrid (above) as part of a campaign to preserve or reclaim about 56,000 miles of traditional tracks used when the animals migrate between winter and summer pastures. After a summer in Spain's northern mountains, the sheep are returning 560 miles to their home farms near Caceres in the west.

UK supermarkets criticised: British *supermarkets* are selling food produced in developing countries by farmers working for unacceptably low wages in dangerous and degrading conditions, says Christian Aid. The international charity claims to have found "punishing" work conditions, pesticide poisoning, low wages and discrimination in countries such as Brazil, South Africa, Thailand and Peru. Page 7

European Monetary System: The Irish punt kept its place at the top of the EMS grid last week, buoyed by the continued strength of sterling. There was no change in the rankings compared with last Monday. Currencies, Page 25



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

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Success paves way for faster privatisation scheme

Big demand for shares in Italy's Eni sell-off

By David Lane in Rome

Italy's largest ever share offering – in Eni, the state energy concern – has been heavily oversubscribed, paving the way for an acceleration of the country's privatisation programme.

The treasury reported heavy *demand from both retail and* institutional investors for the *1.1bn shares, priced on Friday*. The sale, which raised a total *of L7,698bn ($5,084m)*, was the largest secondary offering ever carried out *in continental* Europe.

The government's stake in Eni, which includes engineering and petrochemical businesses as well as oil and gas, has been reduced from 85 per cent to 71 per cent or less as a result of the sale.

Institutional investors applied to buy three times the amount of shares on offer, while demand from retail investors was so heavy that the number of shares available to them had to be increased from 450m to 700m.

Mr Mario Draghi, the director-general of the Italian treasury, described the operation as a step towards the company's complete privatisation, and said it could prepare the ground for an acceleration in the sale of state assets.

"This success has ... allowed us to reposition the whole privatisation programme, defining new reference points and indicating new and more ambitious objectives that would have been hard to reach before this operation," Mr Draghi said.

The Italian government hopes to sell its controlling stake in Stet, the telecommunications group, early next year and a first tranche of shares in Enel, the electricity corporation, at the end of next year.

Mr Draghi has said the treasury is also looking at the privatisation of savings banks controlled by local government.

Institutional investors in the *Eni offer are paying Friday's* official closing price of L7,161, *while retail buyers were* offered a 3.5 per cent discount, *obtaining the shares at L6,910.*

In addition to the 1.1bn shares sold *on Friday*, underwriters have the "greenshoe" option to issue a further 165m shares, pushing the total value of the sale to L8,880 bn.

The sale of the second tranche of Eni's shares is a significant improvement on the outcome of the initial public offering in November last year when the treasury ministry sold 15 per cent of the group's share capital.

The treasury ministry had then earmarked up to 1bn shares for Italian small investors, but closed the offer two days ahead of schedule when it became clear that the retail offering had flopped.

Mr Draghi said of the latest sale: "We wanted to use this offering to promote a share-owning culture among individual investors."

At 383,000, the number of applicants in the Italian retail offering was almost double the 195,000 small investors who applied for shares when the first Eni tranche was sold.

Analysts say a sale of a third tranche of Eni shares, with *perhaps as much as 20 per cent* of the equity being offered, could take place next summer.

Police fire teargas at protesters of the Jamaat-i-Islami party in Rawalpindi, Pakistan yesterday. Islamabad was sealed off and at *least 25 people were injured when police* charged a crowd of about 10,000 with batons. The protesters were demonstrating against alleged corruption in prime minister Benazir Bhutto's government. Report, Page 6 Reuter

India to ease curbs on consumer goods

By Peter Montagnon and Mark Nicholson in New Delhi

India will present its trading partners in the World Trade Organisation with proposals for liberalising imports of consumer goods in January, after 50 years of protection.

The move is evidence that Mr H.D. Deve Gowda, prime minister in the five-month-old United Front government, is prepared to take the economic reform process further, but the timing is more determined by pressure from WTO members.

Mr Tejendra *Khanna*, India's commerce secretary, told the *Financial Times that even* modest purchases of foreign *consumer goods* by India's 200m-strong middle class would push up imports by $20bn a year.

However, opening up the consumer sector will provoke strong political resistance from opposition parties and some members of the 13-party coalition government, which retain a deep distrust of foreign multinational companies.

This has led to high-profile opposition in the past to investments by companies such as Coca-Cola and Kentucky Fried Chicken.

Since last year *both Europe* and the US have been arguing strongly *that* India no longer has the balance of payments vulnerability which it has traditionally used to justify close protection of its consumer goods market. The issue is likely to come to a head in January when the WTO will consider a study by the International Monetary Fund on India's balance of payments.

Mr Khanna said his government would present to that meeting proposals broadly aimed at completing *liberalisation* by the turn of the decade. However, western *diplomats* say they expect tough talks with *India both on the time*table and the degree to which *it will be able to control the* liberalisation process through the use of special import licences.

The industrial countries say India's $18bn in reserves, worth more than five months' imports, mean it has no balance of payments problem, especially since liberalisation would lead at first only to the import of a limited quantity of luxury goods such as liqueurs and cosmetics.

Mr Khanna warned: "I don't *think that our foreign* currency balances would permit a *precipitate opening up of the* consumer sector." However, *India*, which aims to more

Continued on Page 18

Gap closes between EU's rich and poor nations

By Lionel Barber in Brussels and Stefan Wagstyl in London

The gap between rich and poor countries in the European Union is closing, according to an in-depth study of EU regional policy.

But wealthier nations are seeing widening gaps between their prosperous and deprived regions, particularly in employment levels. This is especially true of Britain, says the report.

The study, to be published by the *European Commission* on Wednesday, is the most comprehensive official assessment of the effectiveness of *EU regional aid, which* accounts for almost one-third *of the annual Ecu90bn* EU budget.

The *Cohesion Report*, which covers the period from 1983 to 1993, is part of preparations for the reform of regional aid ahead of the proposed enlargement of the EU to include the poorer, farm-intensive economies of central and eastern Europe. It is widely accepted that extending EU policies to the new applicants would be prohibitively expensive.

Ireland has made the most spectacular advances in raising incomes through higher economic growth, with Spain also showing impressive gains. Together with Greece and Portugal, the "Poor Four" have raised average per capita income from 66 per cent of the *EU average in 1983 to 76 per* cent in 1995.

***Mrs Monika Wulf-Mathies*, EU regional affairs commis*sioner*, is expected this week to welcome the report's conclusions as proof that Brussels aid can reduce social and economic disparities in the EU.**

But these successes could make it difficult for the four to continue receiving huge EU handouts in the next EU budget talks starting in 1999.

Ireland faces a particularly difficult task since its GDP per head has risen from 63.6 per cent of the EU average to 89.9 per cent in 1995. Some economists *believe it could overtake* Britain's average income levels *by the turn of the century*.

The UK's success in creating jobs and reducing unemployment compared to the rest of Europe is confirmed in the

Continued on Page 18

UK Labour party might delay entry into Emu

By John Kampfner in London

A UK Labour government would find it very difficult to join a single European currency in the first wave, but would almost certainly seek to join after the general election due by 2002, a senior party spokesman said yesterday.

In the opposition party's most sceptical assessment yet of the prospects of UK participation in Emu at its planned inception in January 1999, Mr Robin Cook, shadow foreign secretary, said the parliamentary timetable for an incoming Labour government would probably preclude early membership.

Aides of Mr Tony Blair, *Labour leader, said Mr Cook's* remarks did not contradict party policy, which is that a decision will be taken nearer *the time on the economic merits.*

European banks could see revenues from cross-border money transfers cut by almost $5bn a year as a result of monetary union. Report, Page 2; Time pressure, Page 7

However, Mr Cook appeared to stretch party policy to its limits. He suggested that a Labour government would be wary of having its economic policy dictated by the Maastricht convergence criteria required for entry and of having its legislative programme dominated by the issue.

"We can only assess the position in government," Mr Cook *told the Financial Times* last night. "But any intelligent person can see that the obstacles are formidable."

While the issue has deeply split the government, it is also producing increasing strains within Labour. Mr Gordon Brown, shadow chancellor of the exchequer, is known to be more enthusiastic about Emu entry in 1999. A senior party official said he would be likely to resist Mr Cook's pessimistic evaluation.

An adviser to Mr Blair said no "fixed, firm or collective view" would be taken until after the general election, which appears most likely in May 1997.

Mr Cook's position may reinforce difficulties for Mr John Major, prime minister, who has forced his cabinet to rally behind a neutral "wait and see" policy on Emu. Some Eurosceptic ministers in the *governing Conservative party* have made clear, however, *that the Tories will rule out* participation immediately *after the election*.

Mr Cook, interviewed earlier

Continued on Page 18

Albania	LEK 275	Gibraltar	£0.76	Lithuania	Lts 18.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR13
Bahrain	Din1.300	Hong Kong	HK$20	Malta	Lm0.70	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft270	Morocco	MDh18	Slovak Rp	SK75
Cyprus	C£1.20	Iceland	IKr260	Neth	Fl 4.75	S.Africa	R12.00
Czech Rp	Kc70	India	Rs75	Nigeria	Naira125	Spain	Pta250
Denmark	DKr20	Israel	Shk9.00	Norway	NKr22.00	Sweden	SKr20
Egypt	E£5.00	Italy	L3200	Oman	OR1.70	Switz	SFr3.70
Estonia	EKr 28	Japan	Y500	Pakistan	Rs50	Syria	S£80.00
Finland	FM18.00	Jordan	JD1.75	Poland	Zl 6.00	Tunisia	Din2.000
France	FFr12.00	Kuwait	Fils750	Portugal (inland)		Turkey	L120,000
Germany	DM4.00	Lebanon	LL3500		Esc265	UAE	Dh13.00

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NEWS: EUROPE

EU finds flexibility bends both ways

A boon to expansion or a bomb under unity? Lionel Barber looks at the future of Europe

Few ideas arouse more suspicion than the term "flexibility" when politicians debate the future of the European Union.

Supporters see it as a device for like-minded countries to speed up integration and leave behind less enthusiastic member states. Critics regard flexibility as the ticking bomb which could blow apart the EU.

Tomorrow night, in Luxembourg, the 15 high-level negotiators in the Maastricht treaty review conference will resume debate on what is turning into one of the most fascinating and important questions in the IGC.

Their starting point is a joint paper France and Germany unveiled last week in an effort to clarify the terms and conditions for applying flexibility – otherwise known as "differentiation".

The Franco-German paper falls far short of a blueprint for action; but the proposal that no member state should be able to veto closer co-operation between groups of EU countries has triggered alarm in Britain, Spain, and, to a certain extent, in Scandinavia.

They fear the creation of an elite grouping which could discriminate against other EU members, undermining the present delicate balance between large and small countries, and between the economically advanced north and the poorer south.

As one Swedish official said: "There is a lot of caution and suspicion because flexibility represents a very new development which breaks with tradition. When we ask questions, we don't get clear answers."

No one disputes the need for a degree of flexibility in the EU. In 1958, when the union comprised only six members, it was natural for all to accept the same rules, institutions and policies. But in a union of 15 member states, which is increasingly diverse in political, cultural, and geographical terms, patterns of co-operation have become more varied.

Examples of flexibility include the 1985 Schengen agreement, which began as an accord among five countries to scrap border controls and has steadily expanded membership; the Western European Union, the EU's embryonic defence arm, which does not include "neutral" members such as Austria, Finland, Ireland and Sweden; and the Maastricht treaty, which explicitly provides for an "advance guard" to form economic and monetary union.

There are three reasons for assuming that the trend toward more flexibility will continue. First, the admission of poorer, smaller countries from central and eastern Europe will sharply increase diversity in EU membership. Second, many believe that a 25-plus Union needs a Franco-German nucleus as a magnet for tighter political integration.

Ironically, Mr Major spoke of the advantages of a 'multi-speed, multi-track, multi-layered' EU

Third, new devices are needed to circumvent countries such as Britain and Denmark which want to preserve the status quo.

The issue the IGC must settle is when, where and under what conditions flexibility should apply. Should there be pre-defined areas of closer co-operation, a general enabling clause (favoured by France and Germany), or case-by-case flexibility? Should core EU policies such as the single market, competition, and trade policy be labelled "no-go" areas in the new "Maastricht 2" treaty?

Perhaps the trickiest issue is whether member states should retain the right to veto efforts by others to press ahead, even though this right would appear to negate the very principle of flexible integration.

The irony is that Britain has championed flexibility ever since Mr John Major, the prime minister, won the right in the 1991 Maastricht treaty to opt out of the planned single currency and EU social policy. In September 1994, Mr Major spoke in glowing terms about the advantages of a "multi-speed, multi-track, multi-layered" EU.

What Mr Major means in practice is that the British favour flexibility where it offers the maximum choice. In justice and home affairs, Britain is relaxed if government-to-government conventions on penal co-operation enter into force before they are ratified by all 15 member states. In foreign policy, Britain, like France, prefers *ad hoc* arrangements with privileged partners such as the Contact Group on Yugoslavia.

Yet the British, like the Spanish, are starting to grasp that flexibility is a double-edged sword. The danger of being cut out of the core business of the Union becomes more apparent once it is viewed in the light of the planned single European currency.

France and Germany have pledged to meet the January 1 1999 deadline for Emu. They are the two indispensable political pillars for the project, and both clearly see the future Emu bloc as a platform for greater co-operation. Fear of being left behind is the driving force behind the heroic efforts in Italy, Portugal and Spain to meet the Maastricht deficit and debt criteria for Emu.

Spanish officials are already considering scenarios whereby the Franco-German core draws up new rules in areas such as tax, the environment or social policy which could discriminate against countries outside the Emu bloc. Franco-German plans for a "Stability Council" for Emu members to enforce budgetary discipline among themselves could be the institutional nucleus of such an exclusive political grouping.

If flexibility is forged with Emu in this fashion, the consequences would be profound. So far, no one is ready to contemplate the idea of a "community within a community", but some believe it is inevitable. As one official involved in the IGC discussions concedes: "The historic direction is going this way."

Big annual loss of revenue from cross-border money transfers seen

Emu 'could cost banks $5bn'

By George Graham, Banking Correspondent

Banks could see revenues from cross-border money transfers cut by almost $5bn a year as a result of European monetary union, according to a study from the Boston Consulting Group.

Since the European Union accounts for half of all global cross-border payment revenues, that could make Emu a devastating blow to the banks' existing franchise for international wholesale money transmission services, leaving perhaps only three to five global banks able to compete.

Although BCG forecasts that the number of cross-border wholesale payments around the world will nearly triple from 253m transactions in 1994 to 745m in 2004, banks will take a much smaller slice from the cake.

Some of the biggest companies have already negotiated the fees they pay for an international payment down from an average of $30 three years ago to $10 today. Some corporate treasurers have cut fees by 75 per cent in the last 12 months.

Most companies still pay much more than this but BCG expects the average to drop from $62 per transfer today to around $32 in 10 years.

"Customers are increasingly unwilling to pay a significant premium for transferring money across national boundaries. The message is that a lot of banks will be losing a lot of revenue," said Mr Nick Viner, a BCG vice president and co-author of the report.

Besides the impact of Emu, Mr Viner sees banks suffering as companies introduce more sophisticated treasury management and concentrate dealings with fewer banks.

Traditional correspondent banking, in which one bank will channel its payments in another country through a friendly local bank, is less able to compete on cost and efficiency with the global banks which can assure payment around the world through their own networks.

Only a handful of banks are able to give that sort of service. Bank of America, Chase Manhattan, Citibank and NatWest are thought to be the only ones already capable of providing real time multi-currency accounting and instant updating of client ledgers, though European banks such as ABN-Amro and Deutsche Bank are also thought to be significant competitors.

The BCG study, prepared for a conference of payments executives in Montreux last week, is one of the most comprehensive recent attempts to map the payments business, which remains at the heart of the banking industry but which many banks have tended to take for granted.

Although few banks separate revenue from their payments business from other income, BSC estimates total payment revenues – including wholesale and retail, international and domestic – amounted to $207bn or 7 per cent of total revenues in 1994 for the top 1,000 banks.

Banks will suffer the same pressure on their domestic payments income as on cross-border business, with volumes increasing but revenues per payment falling from an average of 65 cents to 35 cents. Retail customers, too, will pay less.

Without any of the negative factors, such as Emu, revenues from cross-border wholesale transfers would have been expected to rise from $16bn in 1994 to over $45bn in 2004, but with those factors BCG forecasts profits of only $24bn.

Farm ministers face fresh row over beef

By Caroline Southey in Brussels

European farm ministers are set for a showdown this week with Mr Franz Fischler, European commissioner for agriculture, over plans to cut aid to cereal farmers in order to fund measures to address the beef crisis.

European Union officials predict that the ministers, who begin meeting in Luxembourg today, will avoid making any hard decisions – for example, on a commission proposal to slaughter more than 2m calves to reduce production and cuts in aid payments to arable farmers.

They say agreements may be reached on limited measures such as raising the ceiling on surplus stock.

A seven-month-old crisis sparked by fears over mad cow disease has increased beef surpluses and depressed prices. But all EU countries except the UK and Sweden are balking at Mr Fischler's plans to ease the pressure on the market.

"The negotiating situation is very difficult. There is general recognition that something has to be done, but not one single element of the package has reasonable backing," an EU diplomat said.

Mr Fischler's drive for urgent action has been undercut by signs that beef prices have risen recently and that the fall in consumption has been arrested. The Commission admitted last week it had reduced earlier forecasts that the beef mountain would reach 720,000 tonnes by the end of the year.

But it warned that pressure on the market had eased only because 220,000 tonnes of beef was being exported each week. An official said this level of exports could not be sustained because of limits on subsidised exports under the General Agreement on Tariffs and Trade.

The Commission calculated that the EU had used up 40 per cent of the total quota for the marketing year which ends in June 1997, exporting 100,000 tonnes more than it should a week. Under Gatt rules the EU is allowed to export 1.1m tonnes of subsidised beef during the marketing year.

"The exports have helped stabilise the market. But we are eating tomorrow's dinner today," an EU official warned. "The day of reckoning will come and we will have used up our quota."

The most difficult issue facing the ministers will be the question of boosting aid to beef farmers. The ministers cannot settle the question of cutting aid to cereal farmers to free funds for the beef sector this week, because the European parliament has so far refused to give its opinion on the issue.

But the proposals risk running into the sand in any event.

"We are on a collision course over the budget. Most member states do not want the cuts because the cereal farmers would be hurt," the EU diplomat said.

Europe's IT market set for further rapid growth

By Paul Taylor

The European markets for information and communications technology equipment, software and services will grow by 8 per cent to Ecu354bn ($450bn) next year, according to the Frankfurt-based European Information Technology Observatory.

This compares with growth of 7.6 per cent in the current year and 8.2 per cent last year, when the market grew to Ecu304bn, says the Technology Observatory's recently published study, EITO Update 1996.

The Technology Observatory, which tracks European spending on IT and communications, says trends contributing to growth include:

- The shift towards outsourcing IT services such as data centres, consulting and strategies;
- Demand for high-performance personal computers with multimedia capabilities;
- Increasing telecommunications traffic;
- New entrants to the telecommunications industry;
- Expansion of the packaged software market.

However, the study acknowledges that its expectations for IT market growth this year have been slightly downgraded to 6.6 per cent from 7.1 per cent at the start of the year because of the economic downturn in the first six months.

As a result the European IT market is now forecast to increase from Ecu142bn to Ecu151m this year and by 6.9 per cent next year. Year by year, IT demand in western Europe is growing by more than Ecu10bn.

This year hardware products including computers will account for 43 per cent of the IT market. In 1996-97 this segment is expected to grow by 6.2 per cent, led by PCs and workstation sales, which are growing by 9 and 11 per cent respectively in value, and local area networks, which will grow by 18 per cent this year and 12 per cent next year.

Overall, the hardware market in Europe has grown from Ecu61.6bn last year to Ecu65.4bn this year and will increase to Ecu69.5bn next year while the software market, which is growing by between 9 and 10 per cent a year, will grow from Ecu32.4bn to Ecu35.5bn next year.

IT services will increase by about 7.5 per cent from Ecu35bn last year to Ecu37.3bn this year and Ecu40.2bn next.

Meanwhile the telecommunications sector is growing even more strongly, fuelled by demand for mobile telephones in the business and consumer markets.

Overall the European telecommunications market, which grew by 9 per cent last year to Ecu162.7bn, will grow by 8.6 per cent to Ecu176.7bn this year and 9.1 per cent to Ecu192.7bn in 1997.

IT: where the expansion lies

Projected growth in market value (%)

	Information technology			Telecommunications		
	1995	1996	1997	1995	1996	1997
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Germany	7.2	6.4	7.4	8.6	9.7	9.6
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Netherlands	7.7	7.7	6.9	13.7	5.4	8.9
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
UK	9.4	8.2	7.0	11.0	10.5	11.2

Source: EITO Update 1996

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Labour ahead in Malta

By Godfrey Grima in Valetta

Malta's opposition Labour party, led by 48-year-old, Harvard-educated Mr Alfred Sant, last night appeared to be heading towards victory in the island's general election, in which more than 96 per cent of voters cast their votes on Saturday.

Initial returns suggest Labour could win a 9,000-vote surplus over the centre-right christian democratic Nationalist party of the prime minister, Mr Eddie Fenech Adami. The size of the majority is expected to be known tonight.

Mr Sant, who took over the Labour party five years ago, is committed to withdrawing Malta's application to join the European Union as a full member, filed in 1991, and to eliminate value added tax, introduced by the Fenech Adami administration a year ago.

Throughout the last four weeks of the election campaign, Labour's promise to eliminate VAT appeared to be its deadliest weapon in wooing thousands of traders and middle-class wage-earners to desert Mr Fenech Adami's camp.

In the event, Mr Sant's campaign, which eschewed the controversial, divisive politics enshrined by his predecessor, Mr Dom Mintoff, seems to have swayed a total of 21,000 voters to his side from 274,000 who went to the polls on Saturday.

An overwhelming 96.2 per cent of Malta's 274,000 registered voters went to the polling stations, in one of the highest turnouts ever recorded on the island.

Windfall $65m dividend for Ambrosiano creditors

By Jim Kelly, Accountancy Correspondent

More than 14 years after the collapse of Banco Ambrosiano a group of creditor banks has received confidential notice of an unexpected $65m dividend from liquidators following the completion of legal actions.

The payout, which represents 9 per cent of creditor banks' $700m losses in the spectacular collapse of Banco Ambrosiano Holding in August 1982, brings total dividends so far to $602m – a healthy 86 per cent of the losses. The dividend will be paid on December 5 and is the first since March 1995.

The collapse of Ambrosiano followed the discovery in June 1982 of the body of Mr Roberto Calvi, its chairman, hanging under Blackfriars bridge in central London. The scandal surrounding the collapse involved the Vatican bank and some of Italy's best known financial names.

The latest dividend is the result partly of civil out-of-court settlements with the estate of Mr Calvi in Nassau, Canada, Luxembourg, and Italy. As a result $7m has been recovered for the 109 creditor banks.

A further $53m has been recovered through the conclusion of civil litigation in Geneva against Mr Licio Gelli, who was separately accused of manipulating the bank through the P2 Masonic lodge. Mr Gelli was one of 33 people sentenced in 1992 in connection with the collapse of Ambrosiano. He is to appeal.

Mr Carlo De Benedetti, named deputy chairman of the bank by Calvi in 1981, was sentenced after the collapse and is also to appeal. He faced claims that he made an illegal profit on the sale of a stake in the bank bought just before he took the job and sold to third parties after his departure 65 days later. He settled with Italian liquidators earlier this year.

The principal outstanding case relates to the assets in Geneva of Mr Umberto Ortolani, sentenced alongside Mr Gelli for trying to manipulate the bank through P2. According to a letter sent to the creditor banks, however, "the liquidators do not foresee that there is any prospect of a future dividend of any significance."

The liquidators had already recovered $151m from the IOR, the Vatican bank, and $144m and $20m from the sale of shares in Banco del Gottardo and BAMAS – an Argentine subsidiary of the holding bank.

A further $17m was recovered from Mr Bruno Tassan Din and $10m from Mr Flavio Carboni, both involved in the collapse of the bank, and $10m was recovered from sale of loan notes of Union Commerce Corporation.

With 86 per cent of losses recovered, the liquidation will be judged a success – the initial target was 67 per cent.

Ukraine laments lost soaps

Children's specials and Brazilian melodramas go as Kiev tries to squeeze out Russian TV, reports Matthew Kaminski

Angry Ukrainians are protesting against their government's decision to take ORT, Russia's state television network, off Ukraine's third terrestrial TV channel, to make way for a new locally owned network.

Gone are the popular Brazilian soap operas and Russian children's specials that have a huge audience in Ukraine, many of whose 52m people have Russian as their first language.

Only the ORT nightly news and a panel game called "Name That Tune" will be rebroadcast on the new Ukrainian Independent Television (UIT).

The government said state-controlled ORT had not paid its bills for using Ukrainian airwaves. But the ban complements other measures aimed at limiting Russian influence – in whatever form – on the Ukrainian state, emerging after three centuries under Moscow's rule.

Restrictions were put on Russian television programmes last year, when ORT programmes were removed the main television channel and the number of hours it could broadcast was curtailed, and Russian radio was squeezed off the airwaves in 1993.

In addition, Russian-published newspapers are not sold in most street kiosks, since the government this year instituted a prohibitive licensing fee.

The regional parliament in the Crimea, the predominantly Russian peninsula, last week passed a resolution setting aside funds to bring back ORT to the region, after protests about discrimination against Ukraine's 12m Russians.

But most viewers, in a country with fairly good ethnic relations, were more concerned by the loss of the Russian-language version of "Santa Barbara", the US afternoon soap, and lively talk shows and news programmes.

Poorly funded Ukrainian networks have not been able to compete. Their news format remains largely unchanged from the Soviet era. Entertainment programming also lags behind.

ORT – broadcast across eastern and central Europe, as well as in Israel – recently expanded its commercial operations in Ukraine, opening regional offices to sell advertising.

The broadcasting authority has responded with a new licensing system favouring domestic companies.

Mr Alexander Zinchenko, the general director of UIT, which has been awarded the third channel, promised his network would match ORT quality. "I have told my colleagues our channel should not reshow western soap operas, but rather produce good programmes."

But it is precisely the loss of those western soap operas that Ukrainians are protesting about.

President Leonid Kuchma, whose own best language is Russian, yesterday personally intervened in the television row, in a typically Ukrainian fashion. He formed a commission to study the changes at the third channel which, he noted, have had a "considerable social resonance".

Ivan Marazov, presidential candidate of Bulgaria's ... Socialist party, votes yesterday. Low early turnout appeared to point to apathy among voters

Deutsche Bank deal sets up Visa for Germany

By Krishna Guha, Torsten Riecke and George Graham

Visa, the international payment card consortium, could be poised for a significant breakthrough into Germany after winning over Deutsche Bank, the country's largest private sector bank.

Card issuers have long regarded Germany, where consumers prefer to pay bills in cash, as a "black hole" in the European credit card market: Visa, the world's largest payments system and the market leader in most countries, has had little success there.

Deutsche Bank has now announced that it will start issuing Visa cards alongside its existing Eurocards, which are linked to the Europay/MasterCard consortium, Visa's rival. A senior Visa executive said the Deutsche decision was a breakthrough into a "virtually untapped market".

The dominant card in Germany is the Eurocheque combined debit, cash machine and cheque guarantee card. Eurocheque is also linked to the Europay consortium and has nearly 50m cards in issue in Germany.

The average German uses a payment card just five times a year, according to Datamonitor, the market research organisation, against 31 times in France or 37 times a year in the UK. German consumers usually buy food, petrol and clothes by cash. Even restaurant bills and theatre tickets are typically paid for in cash.

"It's a market which has to open up. We predict very substantial growth in the future," said Mr Martin Brennan, who heads the Hamburg operation of Barclaycard, one of the three biggest credit card issuers in the country.

Card acceptance remains much lower than in other European countries, partly because of the heavy charges processors levy on traders – up to 8 per cent, compared with between 1 and 4 per cent in the UK. The charges give Eurocheque, which takes a much smaller cut, an increased advantage.

Few German cards are true credit cards, with a revolving credit the cardholder can pay in full or in part each month. Most, like Deutsche's new Visa cards, are deferred debit cards, where the full bill must be paid off each month.

German bankers argue that their credit market is not underdeveloped, as revolving credit comes with current accounts, rather than credit cards.

Visa executives say there are still "strong cultural barriers to credit in northern Europe". Their great hope is that more Germans will adopt their card for convenience in travelling in countries where plastic is more commonly used.

More Germans are applying for credit cards before they travel abroad, but many stop using them – or even send them back – when they get back home.

EUROPEAN NEWS DIGEST

Rome pension review urged

The Italian government wants to bring forward a review of the country's pension system, Mr Walter Veltroni, the deputy prime minister, told industrialists in Capri at the weekend. He said it should be undertaken next year rather than in 1998, as provided for in pension legislation enacted last year. He said a joint effort by the government, employers and unions was needed to design a welfare state for the year 2000.

The announcement was welcomed by Confindustria, the industrialists' confederation, which considers last year's pension reform insufficient to tackle serious shortfalls in funding. But unions oppose a review before 1998.

Mr Giorgio Fossa, Confindustria chairman, said Italy's pension system had become "a well in which the most cunning can fish freely for unearned and unjustified income". *David Lane, Capri*

Ukrainian miners go on strike

Miners at 17 Ukrainian coal pits went on strike at the weekend demanding unpaid back wages. The action follows similar protests earlier this month by teachers and other state employees, who are owed an estimated $1bn. The Kiev government has failed to pay wages in order to maintain tight 1996 budget expenditure targets negotiated with the International Monetary Fund. The wage crisis has not yet sparked serious social unrest.

The weekend strike involved only 1,173 miners in the eastern Donbass region, but the arrears underscore the fragility of the low inflation and stable exchange rate for the currency achieved in recent months. Slow structural reform, including the coal sector, is blamed for the stagnating economy.

An IMF mission arrives in Kiev tomorrow to finalise terms for a new $3.1bn loan, planned for disbursal early next year. An IMF official said more attention would be paid to deregulation, taxation and structural reforms under the new loan. *Matthew Kaminski, Kiev*

'No threat to German jobs'

German investment abroad does not pose a big threat to jobs at home, according to a study published today by the Ifo economics institute in Munich.

It says only some 7 to 15 per cent of companies investing abroad specifically say that they are doing so in order to cut jobs in Germany. However, high costs in Germany have contributed to a lack of foreign interest in the country, Ifo says. *Frederick Stüdemann, Berlin*

NEWS: INTERNATIONAL

Ortiz confident after Mexican talks

Guillermo Ortiz: sees 'modest recovery' in consumption

By Leslie Crawford in Mexico City

Mr Guillermo Ortiz, Mexico's finance minister, yesterday forecast a modest recovery in real wages and consumption during 1997 and strong growth in public and private investment, following a weekend conclave with labour and business leaders that settled next year's economic goals.

He said 1997 would be "a year of transition" in which he hoped to consolidate Mexico's economic recovery. "The real challenge," Mr Ortiz said, "will be to get closer to our economic growth target of 6 per cent a year from 1998 onwards".

He said the economy was set to grow by almost 4 per cent this year, following last year's deep recession, and would grow by more than 4 per cent in 1997.

Unions – some of which boycotted the weekend meeting – accepted a 17 per cent increase in the minimum wage, against projected inflation of 15 per cent for 1997. Few Mexicans, however, earn the minimum wage of less than $3 a day.

More than 80 per cent of Mexico's unionised workers, according to Mr Javier Bonilla, labour minister, are negotiating wage increases of 20 per cent or more for 1997.

Most economists believe a recovery in real wages is essential to revitalise the domestic economy after the battering it received from the devaluation of the peso in 1994. Private consumption contracted by 14 per cent last year.

Mr Ortiz said he had seen a "modest recovery" in consumption during 1996 of 2.5-3 per cent, but he did not expect consumption to grow by much more than that in 1997.

The government, he said, intended to revive its investment programme after the sharp cuts of the past two years. Even so, public investment would amount to only 3.5 per cent of gross domestic product.

Mr Herminio Blanco, trade minister, said the flow of foreign direct investment in 1997 would be similar to previous years at $7bn-$8bn, or about 3 per cent of GDP. Mexican business leaders, meanwhile, said their investment outlays could top $9bn in 1997, against $6bn this year.

Mr Ortiz said he would run a small budget deficit of about 0.5 per cent of GDP in 1997. The current account of the balance of payments would also show a deficit of less than 2 per cent of GDP (compared with more than 8 per cent of GDP before the devaluation) as the economic recovery generated demand for imports.

World drug sales growth holds steady

By Daniel Green

Sales of prescription drugs in the world's main markets maintained steady growth of 6 per cent to $92.6bn in the year to August, compared with the same period in 1995, according to data published today.

The figures from IMS International, the specialist pharmaceuticals industry market researchers, show that while the growth rate is slower than a year ago it is still one of the best of the 1990s.

Growth is being led by the UK and Italy, each of which saw sales rise 11 per cent.

Sales in Italy reached $5.85bn as the industry recovered from two years of government-imposed price controls. Although UK sales rose to $4.37bn, it is still one of the smallest drug markets in terms of per head spending.

Growth was held back by Japan, the world's second biggest medicines market, where sales grew 2 per cent to $15.29bn. This nevertheless represents a recovery from the first quarter, when sales were depressed by a comparatively mild influenza season which hit sales of antibiotics and respiratory drugs.

The world's biggest market remains the US where sales grew 7 per cent to $37.67bn, the same rate as in Germany, where sales reached $11.25bn. Sales in France grew 3 per cent to $9.64bn.

By therapeutics areas, the star performers were antidepressants led by Prozac, made by Eli Lilly of the US. Antidepressant sales for the first eight months were 13 per cent up on the same period of 1995 at $12.9bn.

Growing even faster, but from a lower level, were blood agents, which include a new group of drugs designed to lower cholesterol levels.

Blood agent sales rose 16 per cent to $5.5bn. In the US they grew 21 per cent and in the UK 51 per cent.

Heart drugs remain the biggest single area, with sales of $16.3bn. But competition as patents expired on older products held back growth to 3 per cent.

IMS has also released figures on the fast-growing Latin American markets, some of which have been singled out for special attention by drug companies.

Brazil is the biggest and fastest growing market, with sales for the year to June rising 24 per cent to $6.7bn. The next two largest markets, Argentina and Mexico, both saw sales fall, by 2 per cent to $3.6bn and 10 per cent to $3.5bn respectively.

World pharmacy drug purchases January-August 1996 ($m)

	US	Japan	Germany	France	Italy	UK	Spain	Canada	Belgium	Neths
Cardiovascular	5,534	2,329	2,352	2,288	1,255	723	676	474	259	226
Alimentary/Metabolism	6,173	3,129	1,855	1,493	963	867	560	381	195	290
Central Nervous System	7,002	779	1,269	1,273	824	885	446	415	221	165
Anti-infectives	3622	1731	835	1105	744	279	398	173	154	80
Respiratory	3,851	1,261	1,220	813	419	647	352	236	136	194
Blood Agents	1,930	1,447	516	643	349	113	201	178	86	81
Genito-urinary	2,421	311	850	537	282	245	123	138	63	76
Others	7,137	4,308	2,336	1,492	1,210	834	654	462	225	217
Total	37,670	15,295	11,253	9,644	5,846	4,374	3,408	2,459	1,319	1,351
% Change**	7	2	7	3	11	11	10	5	7	1

Source: IMS International   *Non-hospital market only   **Increase excluding currencies

Adverts see Dole defeat as inevitable

By Patti Waldmeir in Washington

In the clearest sign yet that the Republicans are preparing for defeat in next week's presidential election, the Republican party will today begin airing television advertisements which treat a victory for President Bill Clinton as a foregone conclusion.

The adverts, due to appear in some 50 congressional districts, call on voters to support Republican candidates for the House of Representatives as a counterbalance to a Democrat in the White House. The advertising campaign is the most public acknowledgement so far that the party has turned its attention to preserving its control of Congress, rather than winning the presidency.

Republican candidates have been using this approach for weeks already, confident that the idea of a balance of power between Congress and the White House will appeal to voters.

As the media and politicians from both parties have increasingly begun to rule out a victory for the Republican presidential candidate, Mr Bob Dole has turned sour and abrasive on the stump. Campaigning in California at the weekend, he lashed out at the press and public for failing to condemn the ethical violations of his opponent. "Wake up, America! Wake up, America!" he shouted at a California campaign rally.

He accused the president of personal involvement in a scandal involving misuse of FBI files of former White House employees, provoking the White House to ask for an apology. Politicians from both sides also continued to clash at the weekend over campaign funding scandals affecting both sides.

Observer, Page 17

Peddlin' the US dream 'n family values

Patti Waldmeir on Congressman Chrysler's direct approach

US ELECTIONS November 5

Thank goodness for Congressman Dick Chrysler's two granddaughters, Chloe and Heather. They provide this conservative Republican, running for re-election in middle Michigan, with his best door-to-door campaign line. "Leave you little picture my gran'daughters Chloe 'n Heather," he says, in the frugal political shorthand pioneered by his party's presidential candidate, Mr Bob Dole.

Eschewing wasteful articles and prepositions, he gets straight to the point. "Little bit light reading," he says, thrusting out a brochure adorned with a picture of the two blonde toddlers in American flag dresses and patriotic face paint, and carrying the catchy title "A Progress Report of the 104th Congress".

The girls are there to prove that the Republican Congress elected in 1994 – and Michigan's 8th district congressman, Dick Chrysler – are not hard-hearted. The 10 pages of glossy charts and text are there to show that Congress kept its promises to Republican voters, and that the party deserves to maintain its dominance.

Mr Chrysler does not waste either words or body language conveying this message.

He leaves it to Chloe and Heather and the brochure. With a lightning handshake, and a mumbled request – "'preciate y'r s'port on N'vember 5" – he is out the door and back on the street. Loquaciousness is left for the free-spending, big-government Democrats.

Last week the congressman was visiting voters in Grand Blanc, a mid-Michigan town which is a paragon of American bleakness and a solid base for 8th district Republicans. He left a stack of brochures at Linda's Bridal Emporium, purveyor of the extravagant laces and frills favoured by mid-western brides.

He called in at Tuxedo World, and the dry cleaners, and at Steffan's Pizzas. And he grabbed a campaign lunch at the Big Boy, grandfather of all mid-western fast food restaurants, famed for its cream pies and down-home waitresses.

They let him order his food while making the rounds of midday diners – he called for a chicken pot pie, mashed potatoes and a bowl of soup – and even when the pot pie's canary-yellow gravy congealed with waiting, they did not complain. Whether or not they voted for him – and most of the waitresses surely did not – he was their congressman, and a big man in Grand Blanc.

Earlier that day he had stood on the football field at Grand Blanc high school, campaigning next to Mr Dole. It was a high political moment for their town, and no Big Boy waitress was about to deflate it.

Mr Chrysler stopped dutifully at each booth, where elderly ladies in pastel pantsuits wiped fingers free of french-fry grease to shake his hand, and where even the most obviously Democratic voter accepted his Chloe 'n Heather brochure with mid-western politeness.

"Pleased to meet you," they said in unison, although subsequent comments made clear that many had no idea of the congressman's name, his party, or even his office.

Gulping down his chicken pie, he told his life story: son of a house-painting father and punch-press-operating mother, he "never made it to college". Instead, he raced "fuel dragsters", those quintessentially mid-western vehicles built from scrap metal and bicycle tyres which struggle to remain earthbound against the thrust of oversized engines.

His is a middle-American fairy tale, of a drag racer who starts out sweeping floors at the local car customiser and ends up owning the company.

"Only in America," Mr Chrysler concludes. He says he entered politics to ensure that such only-in-America dreams would forever endure.

But back in the street, climbing into his Oldsmobile Aurora sedan with heated seats built in an 8th district auto plant, he is once again "only a candidate". Clutching his brochures, and his enduring faith in the Republican dream, Mr Chrysler is off to practise his campaign lines in yet another nondescript Michigan town.

"Picture my gran'daughters, Chloe 'n Heather," he will say. "Thank you," middle Michigan will reply, too polite to refuse this vision of family values. "Preciate y'r s'port on N'vember 5," he will say. No one will know until then whether he has got it.

CONTRACTS & TENDERS

ROMANIAN STATE RAILWAYS

CFR

BIDDING NOTICE

1. OBJECTIVE: S.N.C.F.R. intends to organize for international participants a public opened bid, without preselection, in order to fund and finalize the following investment projects in railway infrastructure based on "turn-key" contracts to be concluded for the following projects:

A. new railway line Vâlcele-Râmnicu Vâlcea;

B. new railway line Albeni-Seciuri;

C. rehabilitation consolidation and superelevation of the line retaining walls in the area of Porțile de Fier power plant

D. new railway line Hârlău-Flămânzi.

2. INVESTOR: Romanian State Railways S.N.C.F.R.

3. FUNDING SOURCE: External loan assured by the bidders; repayment is guaranteed by the Government of Romania.

4. INFORMATION RELATED TO THE ORGANIZER: Romanian State Railways, 38 Dinicu Golescu Blvd., sector 1, code 77113, Bucharest, Romania, Tel: (+401) 6384630, Fax: (+401) 2230645.

For any additional information please contact us at the above mentioned phone or fax numbers.

5. VISIT ON SITE: Romanian State Railways is organizing a visit on site for the bidders with the aim of getting useful information for preparation of the bids.

This visit will take place during 25-30 November, 1996.

All the costs related to this visit will be borne by each bidder.

Applications to participate in this visit will be made by fax or by mail at the address and fax numbers stated under item 4, until 18 November, 1996, 12h00, stating the name of the respective participant.

Deficit cuts face rough Knesset ride

By Judy Dempsey in Jerusalem

Israel's finance ministry will tomorrow present its 1997 budget to the Knesset, determined to push through measures to cut the deficit to 2.8 per cent of gross domestic product.

But analysts are sceptical that the deficit, expected to reach 3.8 per cent of GDP this year, will be met unless further cuts are introduced, particularly as economic growth for 1997 was yesterday revised downwards from 5 per cent to 4 per cent.

"Despite a slowdown in the economy, we intend to control spending and cut the deficit," Mr David Brodet, director general of the finance ministry, said yesterday.

He expects stiff opposition to his cuts, which will amount to Shk4.9bn ($1.5bn) from a total expenditure of Shk165.6bn, excluding debt repayments.

Mr Brodet added that lower growth this year, expected to be 3.8 per cent compared with last year's 7 per cent, had been caused by closure of the West Bank and Gaza, which hit exports.

Mr Dan Meridor, finance minister, recently proposed even further reductions in the deficit, which won the support of the Bank of Israel. The central bank is expected today to announce an interest rate cut that may go some way to appeasing the business community, which has been clamouring for a substantial rate reduction as well as a devaluation.

The planned budget cuts are likely to be challenged by the defence ministry, which is insisting on a larger slice of the budget in response to recent violence, and the education and trade ministries. Expenditure in education programmes and investment grants, especially in the technology and electronics sectors, are expected to be trimmed.

The cuts are part of the government's long-term strategy to bring the budget deficit down to 1.75 per cent of GDP, or 45.2 per cent of total expenditure, by the year 2000 through curbs in expenditure and the gradual reduction of the tax burden.

Part of this strategy entails tackling the large balance of payments current account deficit caused by an import boom in the mid-1990s.

This is expected to rise from $3.9bn in 1995, or 4.7 per cent of GDP, to $5.4bn this year.

Fears grow over destabilisation of Zaire

Fears for the destabilisation of Zaire grew yesterday as the country's government, apparently paralysed by the absence of the ailing President Mobutu Sese Seko, seemed incapable of bringing order to the growing chaos in the east.

A total of half a million Hutu refugees were reported to be on the road, fleeing Tutsi fighters who have systematically targeted their camps at the border with neighbouring Rwanda and routed the Zairean army from several key towns.

Around 200,000 refugees were heading west after a camp 25 km north of the town of Goma came under mortar attack from the direction of Rwanda. Another camp was also attacked, and there were reports a town 50 km from Goma had been seized.

To the south, Banyamulenge Tutsis were advancing on the regional capital Bukavu after capturing the town of Uvira and emptying more than a dozen camps.

The United Nations, which over the weekend evacuated 130 staff and aid workers, called for an emergency mission and an international conference to prevent the conflict spreading. It appealed to Zaire, Rwanda and Burundi to refrain from aggravating the situation.

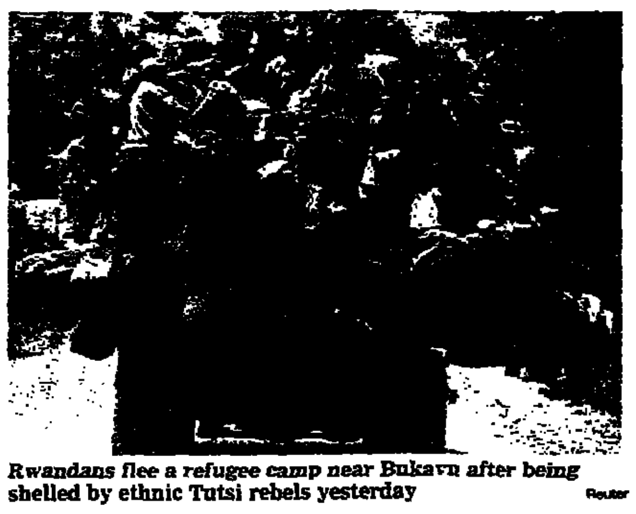
Rwanda has repeatedly rejected Zairean claims that it has sent troops across the border and armed the Banyamulenge Tutsis, declared *persona non grata* earlier this month by the regional deputy governor.

But it was becoming increasingly clear yesterday that the Rwandan authorities must be involved in what is emerging as a well co-ordinated, two-pronged attack on the border area.

Diplomats speculated that the Tutsi-dominated administration, probably working in tandem with Burundi's Tutsi elite, had decided to exploit Mr Mobutu's two-month absence to rid itself of the nagging security problem on its western border. "With Mobutu being treated in Switzerland for prostate cancer and no one running the shop, this was an ideal time to strike," said one.

With the complicity of the Zaireans, Hutu extremists responsible for extermination of half a million Tutsis have been crossing the frontier, killing witnesses to the 1994 genocide and anyone suspected of collaboration with the new Kigali government.

Outrage has grown over the role the UNHCR and aid establishment were playing



Rwandans flee a refugee camp near Bukavu after being shelled by ethnic Tutsi rebels yesterday Reuter

in feeding a guerrilla force intermixed with genuine refugees. Zaire's attempt to force the refugees home at the point of a gun last year sparked a storm of international protest. But when Mr Warren Christopher, US secretary of state, visited Africa this month he acknowledged some of the camps were conduits for arms and must close.

This has proved easier said than done. Western powers are not prepared to fill the region's power vacuum by direct intervention, while the logistics of relocating more than a million refugees 100 km from the border, as demanded by international law, is beyond relief agencies' existing resources.

The latest operations in eastern Zaire suggest Rwanda's aim is to empty the area of refugees and create a buffer zone between Rwanda and the extremists. "They are doing something the UNHCR was incapable of doing and Zaire was told off for trying to do," said one observer.

However, hopes that the latest cataclysm will persuade the refugees, often browbeaten by camp leaders into remaining, to finally return to Rwanda were fading yesterday. But so far only 10,000 have opted to cross the border at Goma, the rest are heading deeper into Zaire.

The alarming escalation of what began as a minor confrontation between the Zairean army and a group of beleaguered Tutsis, has confirmed regional analysts in their belief the crisis is capable of destabilising the region.

With Rwanda and Burundi's Tutsi armies working together policing their mutual border and Hutu extremists from both countries liaising from bases in Zaire, the oft-predicted regional Hutu-Tutsi confrontation is already becoming a reality. The fear is that eventually Uganda and Tanzania could be sucked into that bitter conflict.

Beyond the impact the conflict could have on East Africa, diplomats suggest recent events could signal the start of the long-anticipated disintegration of Zaire, regarded for decades as a black hole at the centre of Africa with an enormous potential for undermining its neighbours.

Corruption-ridden and anarchic, Zaire has nonetheless remained an entity thanks to President Mobutu's ability to call his regional governors to order and dispatch crack troops to crush revolt in the far reaches of his empire.

The eastern Zaire violence, triggered by the careless words of a deputy governor, suggests Mr Mobutu's grip is weakening after 31 years at the helm and that the civilian prime minister, Mr Kengo Wa Dondo, cannot fill his shoes.

It remains to be seen whether the president, relegated to sending messages to Kinshasa from his sickbed, still has the authority and his near-bankrupt country the resources to put down this uprising.

Zaire's territorial integrity, tested over the years by a series of secessionist movements, is already under enormous strain. The province of Kasai uses its own currency, copper-rich Shaba has declared autonomy from Kinshasa, many areas have virtually no contact with the capital.

"If Kivu descends into chaos, what's to stop the rest of the country going its own way? This could be the end of Zaire as we know it," says a diplomat.

Michela Wrong

Israeli settlers in Hebron put trust in God

By Judy Dempsey in Hebron

Mrs Orit Strock believes God, and not Mr Benjamin Netanyahu, the Israeli prime minister, is on her side.

An Orthodox Jewish settler, Mrs Strock came to the West Bank town of Hebron 14 years ago to fulfil her mother's dream and to revive the Jewish community which fled the town after 1929 when Arabs massacred 67 Jews.

"No matter what happens with the peace process, I am going to stay here," said Mrs Strock, a 36-year-old mother of eight children. "This is our land. This is our birthright. God will protect us."

Under the terms of the Oslo peace accords, Israeli troops were due to redeploy from Hebron last March, making it the last of the West Bank towns to come under Palestinian self-rule.

But Mr Shimon Peres, the former Labour prime minister, postponed the redeployment until after the elections last May. Mr Netanyahu, head of the conservative Likud-led coalition, is now saddled with the problem, beholden to some of his coalition partners who are loath to abandon the settlers, and bequeathed with a legacy seen as the linchpin of the peace process. "If Netanyahu abandons us, we will stay on, whatever the price," said Mrs Strock.

Mrs Strock is one of the 415 Jews who live in Avraham Avinu, a tiny settlement of 20 families in the centre of Hebron surrounded by more than 130,000 Palestinians.

There are no-go areas where only Jews and those with Israeli-registered cars can pass through. There are barricades and Israeli-manned checkpoints separating Palestinian traders from the settlements across which insults are exchanged and stones thrown. There are times when Jews put up signs on Arab homes, claiming them as Jewish property. The hatred between the communities runs as deep as the turbulent history of the bustling trading town.

The settlers, many from the US, started returning to Hebron soon after Israel occupied the West Bank after the 1967 Arab-Israeli war. "We were determined to rebuild a community here and claim it as our own," said Mr Noam Federman, head of Kach, the far-right wing extremist movement now banned by the Israeli government but which is active in Hebron. For Kach, the 1929 pogrom has become a potent symbol.

"I promise you, there can be no co-existence between Arabs and Jews," said Mr Federman. "Our movement will do what we can to destroy the peace process and the peace agreements. We do not believe Arabs and Jews can live together." Mr Federman lives in Kiryat Arba, a prosperous 5,000-strong Jewish settlement on the outskirts of Hebron. "We will protect ourselves against them," he said, pointing to Arab houses half a kilometre from Kiryat Arba, and to his gun.

But the Palestinians live in fear just as much as the Jews. The memory of Mr Baruch Goldstein, a fervent Kach activist and US immigrant, has not faded. Two years ago, Mr Goldstein walked into the centre of Hebron to the Cave of Makhpelah, the traditional burial place of the biblical Abraham, Isaac and Jacob which is intensely holy to both Arab and Jew. There, he emptied three rifle magazines and killed 29 Moslem worshippers.

That incident played into the hands of Hamas, the Islamic resistance movement responsible for the wave of suicide bombings in Israel earlier this year and which has a strong foothold in Hebron. Mr Yassir Arafat, president of the Palestinian Authority, has clamped down on Hamas, but there are always fears – among Palestinians and Israelis – that it will strike at any time, wrecking the chances of peace in its wake. "Both sides have their extremists in this town. It is so volatile here. Hebron is a tinderbox," said a diplomat involved in the previous peace agreements.

The Israelis are insisting on more security for the settlers, more buffer zones between Jews and Palestinians and the right of "hot pursuit" into Palestinian self-rule areas. The possibility of asking a few thousand settlers to leave is, for Likud, deemed politically suicidal as well as ideologically unacceptable.

The Palestinians, for their part, are resisting any attempts to make Hebron a divided city, a Berlin of the Cold War era. Mr Arafat has already warned against any attempts to segregate the town on racial lines.

Liberal-minded Israelis, who this week were commemorating the assassination a year ago of Mr Yitzhak Rabin, former prime minister and the chief architect of the peace process, do not hide their contempt for the settlers. "Please understand, they do not speak for Israeli society. They are really fanatics. Peace should not be compromised or held up because of them," said Mr Michael Geffen, a banker.

But Mrs Strock said she and the settlers voted for Mr Netanyahu "because he said he would not let us down. If he abandons us, we have the Bible and we have God on our side."

NEWS: INTERNATIONAL

LDP may govern without coalition

By William Dawkins in Tokyo

Mr Ryutaro Hashimoto, the Japanese prime minister, admitted over the weekend that talks with his former coalition partners on forming a new government had collapsed.

Mr Hashimoto, speaking a week after his conservative Liberal Democratic Party narrowly failed to win a parliamentary majority in a general election, said he now planned to form a government without the LDP's two smaller partners in the previous administration. "It can't be helped... We will do what we have to do whether or not we can get co-operation," he said.

This means he will have to rely on independents and defectors from the main opposition group – which last week averted a break-up – to help him put together a majority. As a result, political observers in Tokyo believe there is now a high chance that the next government will be in such a precarious position in parliament that it will find it hard to carry out any policy that arouses slight opposition, due to the need to win a consensus from rivals. The LDP is 12 seats short of a majority in the 500-seat lower house of parliament.

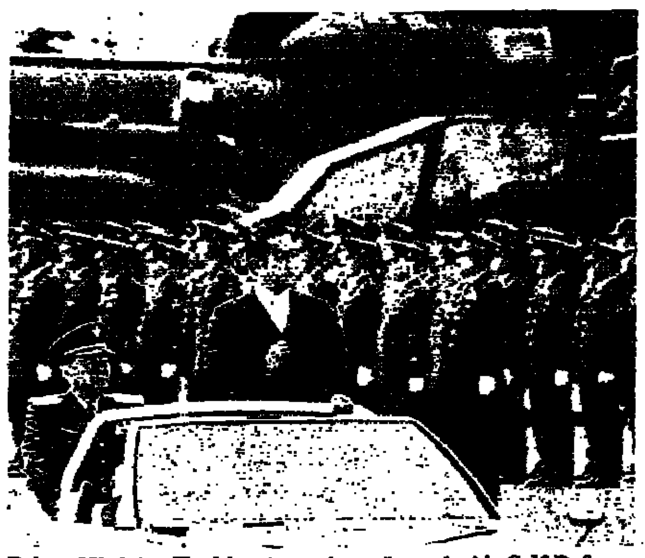
A weaker government would present a setback to Japan's hopes of tackling several serious economic challenges, including a rising tide of government debt, an under-funded pension system and the need to reinforce an as yet fragile economic recovery from the worst economic slowdown in 60 years.

Until the breakdown of LDP talks with its previous coalition partners, the conventional wisdom was that the election presaged a tighter grip for the LDP, enjoying a partial come-back from the previous election in 1993, when it was thrown out of power for the first time in nearly four decades. Despite falling short of a majority, the party attracted more seats last week than it did three years ago. A strong government might yet emerge, given that the post-election bargaining still has some way to go, but it now looks decreasingly likely.

The breakdown in coalition talks happened because the LDP was unable to accept a series of tough policy demands by the second largest party in the outgoing alliance, the leftwing Social Democratic Party. These included a lower sales tax on food after a rise in sales tax is implemented next April, and a ban on business donations to political parties – the financial life-blood of the LDP. The smaller, centre-left, New Harbinger Party, supported its socialist partner's demands.

Ms Takako Doi, the new socialist leader, warned SDP officials they should not regard talks with the conservatives as "just a step following on from the past." She was referring to the loss of support which the SDP had incurred by forming a coalition with the LDP, its traditional foe, from mid-1994 until the election on October 20. Then, the SDP's parliamentary strength was halved to 15 seats.

The only other significant candidate for a new coalition, the newly formed Democratic Party, which campaigned on a pledge to curb the power of the bureaucracy, has kept its distance from Mr Hashimoto, for fear of suffering the same fate as the socialists.



Prime Minister Hashimoto reviews Japan's Air Self-Defence Forces at Ogawa, north of Tokyo yesterday Reuter

Vietnam dials a revolution

Jeremy Grant finds mobile phone mania gripping the country

Vietnam has a history of taking revolution in its stride. But it may not be quite ready for the latest one sweeping the country: telecoms.

Last week, Motorola of the US used a telecoms show in Ho Chi Minh City, the former Saigon, for the Asian launch of StarTAC, a cellular phone about the size of a cigarette packet.

Other suppliers such as Nokia, Ericsson and Siemens were also busily promoting their handsets, confirmation that mobile phone mania has gripped a country which a decade ago had only nine lines connecting it with the outside world.

Indeed, mobile phones costing $600 are selling so well in Hanoi and Ho Chi Minh City that MobiFone – a $341m venture between Vietnam Posts & Telecommunications (VNPT) and Sweden's Comvik – sees its subscriber base reaching 105,000 by the end of next year, from only 3,200 in 1994.

Foreign companies have been quick to grasp that Vietnam's 75m people and rising urban incomes make it one of Asia's most exciting telecoms markets.

But it is also emerging as fertile ground for experimentation with new technology.

Vietnamese are embracing the mobile phone revolution

"The concern of many foreign companies, both manufacturers and operators, is that there will be too many types of standards and the marketplace becomes confused," said Mr Roger Barlow, Vietnam country manager for Cable and Wireless of the UK.

Investors have warmed to Vietnam, partly because its ambitious plans to upgrade its skeletal network offer the prospect of profits from revenue-sharing arrangements with local companies.

VNPT has said the country needs $3bn invested in telecoms in the next four years in order to raise the number of telephone lines to 5-6 per 100 people from 1.48 lines per 100 people now.

Last week, a VNPT official said Vietnam would also push ahead with the launch of the country's first satellite, the construction of a north-south, fibre-optic "backbone" link and involvement in two new international cables.

Foreign companies have not been slow to offer technology and are already lobbying hard to have their industry standards accepted.

NTT International of Japan hopes to introduce its personal handphone system (PHS). The Europeans hope to persuade the Vietnamese of the virtues of Digital Extended Cordless Telephone (Dect) while Korea Telecom and some US companies are pushing CDMA, a US standard for cellular and wireless local loop systems.

But, if recent telecoms history in Vietnam is anything to go by, Hanoi is unlikely to take sides soon – if at all. In the last decade, it has bought 13 different switching systems from a variety of countries.

Last month, Ho Chi Minh City Posts & Telecommunications started operating the country's first fixed wireless system, a network installed by Hughes of the US. Canada's Nortel is busy installing another fixed wireless system in the same city.

Some argue that Vietnam prefers to adopt a wait-and-see attitude, much as it has done in the car industry.

"They're heading down a technology-neutral path," said Mr Andy Cobham, who handles regional regulatory issues at Motorola.

Hanoi's next regulatory move may be unclear, but it can be confident that the financing for its plans may not be hard to secure. "They'll get this on the basis of supplier credits. And, let's face it, Vietnam is an attractive market and they (the suppliers) will be happy to do it," said Mr Barlow of Cable and Wireless.

Islamabad sealed off to stop protesters

Islamabad was yesterday sealed off to prevent Islamic protesters from entering the Pakistani city to stage a large-scale protest demonstration, writes Farhan Bokhari in Islamabad.

Barricades were erected on all roads leading into the capital, virtually stopping incoming traffic, and police fired tear gas shells on the outskirts of the city to prevent the protesters' advance.

Ambulance workers said that at least 25 protesters were injured when police charged a crowd of about 10,000 with batons, to stop them from entering the capital from Rawalpindi, Islamabad's neighbouring city.

The protesters, belonging to the religious organisation Jamaat-i-islami, aimed to bring up to a million activists into Islamabad in order to protest against alleged corruption within Prime Minister Benazir Bhutto's government.

However, many were held up when trains coming to Rawalpindi – which doubles as the rail station for Islamabad – and public transport buses were stopped on the way.

Meanhile, mobile telephones were put back in to operation last night after a 16-hour shutdown by the authorities to hamper the protesters' organisers.

Nevertheless, yesterday's events can only intensify worries for Ms Bhutto's beleaguered government.

A national strike called by businesses at the weekend caused widespread disruption to business activities in many parts of the country.

Many businessmen are opposed to the government's tax and austerity measures announced last week, which the authorities see as the key to restore troubled ties with the International Monetary Fund.

Ms Bhutto says that her government is under siege from conspiracies aimed at removing her from office but that she will not quit.

Australia moves to increase flexibility of labour

Legislation which will further deregulate Australia's labour market looks set to be passed by parliament later this year, following an agreement between the country's conservative federal government and one of the minor parties, which holds the balance of power in the Senate, parliament's upper house, writes Nikki Tait in Sydney.

The Liberal-National coalition government announced at the weekend it had secured support of the Australian Democrats for its workplace relations bill, although at the cost of making some significant changes to its original proposals. The deal follows lengthy talks between Mr Peter Reith, industrial relations minister, and Senator Cheryl Kernot, the Democrats' leader, in the past month. Senator Kernot said the bill would still allow government to meet its objective of raising labour market flexibility but changes secured in talks would give additional safeguards for workers.

"The government doesn't have everything it wants. We don't have everything we want. But it's supportable," she commented. Mr Reith claimed "the integrity, the thrust, the direction, of the bill" had been retained. "By giving time in the extended way that we have, I think we can still say the package as a whole sits sensibly together and is practical... I think it's a very good bill."

In the March election campaign, the coalition argued there needed to be fewer impediments to hiring workers and increased flexibility in Australia's labour market – in part to help address the country's chronic unemployment problem.

The current legislation will provide for a new type of labour agreement – to be called an "Australian Workplace Agreement" – which management and employees will be able to negotiate directly and without union representation (unless this is sought).

INTERNATIONAL NEWS DIGEST

Indian power loan suspended

The World Bank has put pressure on India to speed up reform in its power sector by suspending loan payments to Maharashtra State Electricity Board (MSEB) for failing to meet performance targets.

Sending a clear signal to India's ailing state electricity boards to lift performance, the World Bank suspended any further drawing down by the MSEB of two loan agreements worth $456m. About $203m had already been drawn from the loans.

The Maharashtra state government said the move followed dissatisfaction in the World Bank over the financial health of MSEB and its failure to fulfil loan covenants.

The government said the MSEB failed to lift its rate of return on assets to the targeted 4.5 per cent in the year to March 1996. In addition, the World Bank expressed concern over the amount of unpaid and "unrecoverable" electricity tariff payments which it estimated to be about Rs7.3bn ($205m).

The government said that it expected to make a grant of Rs6.31bn to MSEB in the December session of state parliament to boost the rate of return to 4.5 per cent in 1995-96.

Despite a 17.3 per cent increase in electricity tariffs by MSEB, an additional grant of Rs2.6bn is expected to made later to enable the board to reach the rate of return target in the current fiscal year. *Tony Tassell, Bombay*

Syrian leader 'wants peace'

Israeli opposition leader Shimon Peres said yesterday that Syrian President Hafez al-Assad wanted to achieve peace in 1996 and that Mr Assad had agreed to meet him to discuss it.

"President Assad sent me a message through the Americans saying that he would like to conclude peace in 1996," Mr Peres told reporters after holding talks on the prospects for Middle East peace with Egyptian President Hosni Mubarak.

"I said I'm ready. I have one condition. That is to promote the level of negotiation. You cannot negotiate on a low level where every once in a fortnight people are meeting and polishing a sentence. It will take generations...

"So I told President Assad (a former air force pilot): what do you want. Fly high and fast or low and slow. If you want to fly high and fast, okay, let's have a meeting, if you want to have it in 1996.

"I got a reply saying: 'Yes, I am ready to meet you, but I can't give a date," the former Israeli prime minister and Labour party leader said. *Reuter, Sharm el-Sheikh, Egypt*

Caution on Gulf currency

Qatar's central bank governor Abdullah bin Khaled al-Attiyah said yesterday it was too early for a unified Gulf Co-operation Council (GCC) currency.

"Monetary union will pass through stages," he told a Gulf banking conference in Manama, adding that it would come at the last stage of GCC economic integration.

He suggested a single currency would be premature now because trade between Gulf Arab states was limited and each country's efforts to deal with budget deficits was linked to their individual currencies.

The GCC – Saudi Arabia, Kuwait, United Arab Emirates, Qatar, Oman and Bahrain – is a political and economic alliance. It is working to unify economic and monetary policies as part of a plan to set up a regional market. Excepting Kuwait, Gulf currencies are pegged to the dollar, in which their main export – crude oil – is traded. *Reuter, Manama*

Afghan assault stalemate

Taliban troops held on to a strategic pass north of Kabul yesterday despite an assault by ousted Afghan government forces using rockets, artillery and warplanes to try to dislodge them.

Fighting died down in the afternoon but intermittent shells and rockets continued to kick up the dust on the De Sabz pass, about 30km north of the Afghan capital.

"We captured the high points which were planned," Abdullah, spokesman for ousted government military chief Ahmad Shah Masood, told reporters in the town of Jabal Os-Siraj, 90km north of Kabul. "But the whole pass has not been secured," he said.

Masood's former government forces have allied with fighters of the northern Uzbek leader, General Abdul Rashid Dostum, to try to drive the radical Islamic Taliban militia out of Kabul. The Taliban captured the city a month ago, giving it control of over two-thirds of the country.

Masood's commanders at the front said warplanes belonging to Dostum flew two sorties over Taleban positions early yesterday and confirmed they had also bombed Kabul airport.

Abdullah said he had no details of Dostum warplanes hitting residential areas in Kabul. "According to our information, the target was only the airport," he said.

The assault was the anti-Taliban alliance's second try in less than a week at forcing the Taliban off the pass. Their forces are ranged out on highly exposed ground below the De Sabz pass, where their armour and men stand out against the desert sand.

There was sporadic return fire from Taliban troops while Taliban jet fighters occasionally bombed from the air. *Reuter, Tutakhon, Afghanistan*

Time pressure 'puts Emu at risk'

By Graham Bowley, Economics Staff

The rush to introduce economic and monetary union by 1999 risks seriously undermining the European single currency from the start, the National Institute of Economic and Social Research warns today.

"Work is now being undertaken with such intensity on so many fronts that there is a risk, in the race against the clock, that some unwise decisions will be taken and some issues will be overlooked or not properly resolved," says an article by Mr John Arrowsmith and Mr Christopher Taylor, fellows at Niesr.

In a separate article, Mr Christopher Allsopp and Mr David Vines, of Oxford University, call for a co-ordinated cut in interest rates across Europe to boost growth and to offset the cuts in government spending that countries are making to qualify for Emu.

"In the absence of such co-operative monetary loosening, we see the Maastricht criteria as quite possibly unattainable," they say.

Niesr warns that Europe could be condemned to "a vicious spiral of lower growth and rising deficit and debt" if the proposed European central bank pursues an "over-zealous" anti-inflation policy.

Mr Allsopp and Mr Vines say that fiscal policy should be used as a tool of economic policy to offset adverse changes in different economies after countries have given up the interest rate tool after Emu.

In separate work for Niesr, Mr Daniel Gros, of the Centre for European Policy Studies in Brussels, says that adopting fixed exchange rates in Emu is unlikely to lead to higher unemployment since labour mobility between European countries is not much less than labour mobility within them.

The institute found that the prospects for European countries to meet the Emu criteria are the brightest for a year. Germany, France, the Netherlands, Luxembourg, Belgium, Ireland, Finland and Portugal are all expected to satisfy the criteria.

But a lax reading of the Maastricht criteria could mean some countries will join Emu before sufficient convergence between economies has taken place.

Currency trading in financial markets as traders bet on Emu taking place could lock exchange rates at "inappropriate" levels, it warns.

Compromise urged over supply of beer

By Norma Cohen

UK government officials have proposed a compromise solution that would end the uncertainty caused by the European Commission over the ability of a "pubco" – a large pub chain not owned by a brewer – to control exclusively the supply of beer to the tenants of pubs it owns.

This "tie" arrangement allows pubcos to buy beer in bulk at high discounts from brewers and then resell it to its tenants at a higher price.

European Union competition authorities are reviewing whether existing tied arrangements in several sectors, including brewing, ought to continue to be exempt from EU laws. UK brewers' exemption from these laws was recently extended by the commission until 1999 to give the commission more time to complete its review.

Pub chains owned by brewers come under the exemption but independent pubcos do not because they are a new feature of the UK industry. Thus, the UK government is proposing changes to the leases of pubco tenants to try to persaude the commission to drop pubcos from its review.

The proposals would require pubcos to offer tenants more choice about whose products they sell, according to today's edition of MC Report, a pub industry newsletter. Also, these would allow European brewers to become direct suppliers to UK pubs.

MC Report estimates that 45 per cent of UK pubs are now owned by pubcos untied to any brewer.

However, it is not clear that the compromise proposals would suit the UK pubs industry.

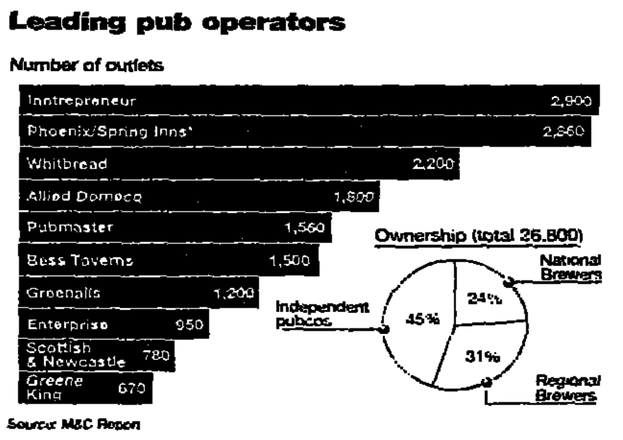
"Several of these would be very difficult to sell to our members," said Mr Nick Bish, secretary of the Association of Licensed Multiple Retailers, a trade association with members including independent pubcos and those tied to brewers.

Department of Trade and Industry officials are understood to have travelled to Brussels last week to discuss the proposals, which consist of five possible clauses that pubcos could insert into leases with publicans.

One possibility would give tenants the right to demand a choice of brewers' beers. Another would allow tenants to buy beer outside the tie from a brewer in another EU member state.

A third option would allow the pubco to buy beer from brewers too small to fall within the net of competition authorities.

Another clause would allow the pubco to source beer from several suppliers. An alternative would be for pubcos to sign short supply contracts demonstrating competition opportunities.



Charity attacks supermarkets' ethics

By Graham Bowley and Peggy Hollinger

British supermarkets are selling food produced by farmers in developing countries who are working for unacceptably low wages in dangerous and degrading conditions, according to Christian Aid, the international charity.

In a report published today, the charity claims to have uncovered "punishing" work conditions, pesticide poisoning, low wages and discrimination on farms and plantations in countries such as Brazil, South Africa, Thailand and Peru. It is calling for supermarkets to draw up a code of practice for their suppliers, and to mark clearly the countries of origin of their own-brand products.

Ms Clare Short, the principal overseas development spokeswoman for the main opposition Labour party, is backing the initiative and will today seek to commit her party to greater emphasis on consumer sector ethics. She will say that a Labour government would support social and environmental clauses to international trade agreements and work for an international code of conduct. "If we band together as consumers, we can make a real difference in reducing the exploitation of some of the poorest people in the world," said Ms Short.

More than a quarter of the UK's imported food and drink comes from developing countries, according to the Christian Aid study. The charity hopes consumer pressure will force supermarkets to adopt a 12-point model code of conduct stipulating standards such as a minimum age for workers, working hours and conditions, and union representation.

Christian Aid is calling for an independent monitoring body for supermarkets. Its report follows a series of high-profile campaigns by western charities and trade unions in industries such as toys, clothing, footwear and sports goods.

Fifa, world football's governing body, has agreed to an international code of conduct to stop child labour being used in the manufacture of footballs. Fifa and members of the World Federation of Sporting Goods Industry meet in London next month to discuss extending the code to other products.

Interest rates and tax 'must increase'

By Daniel Green

Mr Kenneth Clarke, the chancellor of the exchequer, today faces calls from independent economists to raise interest rates and taxes.

With just one month to go before a tax and spending Budget that will be the last before a general election, the economists, from Barclays Bank and Oxford Economic Forecasting, a research group, publish reports warning the chancellor that inflation is above target rates, growth is strong enough and public borrowing too high.

Their recommendations are unlikely to please Conservative "backbench" members of parliament, many of whom want lower taxes and interest rates to help improve the government's popularity.

But Oxford Economic Forecasting says bluntly: "Now is not the time to cut taxes. Indeed, the stance of policy is likely to have to tighten over the coming year to counter emerging inflationary pressures."

Raising taxes, or cutting spending, would "encourage a rebalancing of demand away from consumption towards investment".

More investment would increase the manufacturing capacity of the country and help limit upward pressure on prices caused by capacity shortages.

These views are echoed by Mr Alan Davies, Barclays' chief economist, in the bank's fourth-quarter economic review.

The underlying inflation rate of 2.9 per cent in the year to September "looks stubbornly high relative to the chancellor's expectations", he says, adding that borrowing is "uncomfortably high".

He warns that taxes are likely to rise in 1997 and that there is a case now for a pre-emptive interest rate rise to curb inflation.

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UK NEWS DIGEST

Call to reform financial rules

Mr Richard Farrant, chief executive of the Securities and Futures Authority, the City of London watchdog, has called for fundamental reform of the UK's system of financial regulation to unite under a single body the supervision of banks, fund managers and investment banks.

Mr Farrant said in an interview that the current regulatory structure was becoming "antiquated". Banking supervision is carried out by the Bank of England, separately from regulation of securities houses and investment banks, which is carried out by the SFA under the Securities and Investments Board.

His remarks, made in a personal capacity, are the first time a senior official involved in regulation has called for unification of banking and securities supervision. The Bank of England has insisted it should retain its powers to supervise banking institutions.

Mr Farrant said he would also be willing to see the Bank take on securities regulation. *John Gapper*

■ LOANS AND SAVINGS

Savers to 'win' share bonus

Savers with the UK's fourth-largest mutually owned home loans and savings institution, Alliance & Leicester, will receive a flat-rate allocation of 250 shares, worth an estimated £1,000, ($1,560) when it floats on the stock market next year. Details of the Alliance's planned conversion from a mutual society to a limited company will be sent today to its 3.2m savers and borrowers.

The society is the first of three such large institutions hoping to float before next summer to unveil the terms of its proposed conversion. Halifax, the largest, with 9m savers and borrowers, plans to unveil details of its float in January, and the Woolwich is expected to make an announcement shortly after that.

J.P. Morgan, the US investment bank advising on the float, has estimated on the basis of current market conditions that the company could be valued at £2.8bn. On this basis, each share will be worth about £4.

Alliance & Leicester made pre-tax profits of £288m in 1995 and has total assets of £23bn. In addition to its core savings and home loans businesses, the society owns Girobank, which operates one of the UK's largest telephone banking operations. *Simon London*

■ BRENT SPAR RIG

Shell plans disposal shortlist

Shell UK said yesterday that it hoped to complete a shortlist of about six proposals by the end of the year for the disposal of Brent Spar, the obsolete North Sea oil installation. A total of 30 proposals from 19 contractors are being looked at to find the best solution for Brent Spar, which was at the centre of a row last year over plans to dump it in the deep waters of the Atlantic Ocean.

At the moment the huge storage vessel is in a Norwegian fiord. Apart from the obvious option of breaking up the vessel for scrap, the outline proposals range from using it to create a wildlife viewing platform in Morecambe Bay, Lancashire, in north-west England, and a floating power station off Scotland to a wind-powered desalination plant or using parts to control coastal erosion on the east coast of England.

Shell UK emphasised yesterday that the shortlist had not yet been chosen and at the moment there were no preferred options. *Raymond Snoddy*

Happy to be taxed for their tipple

It is Friday evening, it has just turned 6pm and you need a couple of bottles of wine for the weekend. Call in at the corner shop on the way home? Not in Sweden you don't.

Retail sales of all alcoholic drinks stronger than a light beer are still under a state monopoly in Sweden, and in Norway and Finland for that matter. The liquor stores shut on Friday at 6pm and do not reopen until Monday morning.

Oh well, why not nip into a bar for a consoling drink? Ouch! A half-litre of regular beer will set you back the equivalent of $4.25 (£2.72) and that's during Happy Hour. A glass of house wine costs the same. A single whisky will leave you at least $6.50 poorer. Not only is the sale of drink still heavily regulated, drinkers are also burdened with some of the highest alcohol taxes in the world.

Thirsty visitors, especially from wine-drinking countries like France and Italy, shake their heads in disbelief that such rules can still apply in Europe. Surely they must change now that Sweden and Finland have been members of the European Union for almost two years?

Certainly, pressure is building on the two governments to bring their alcohol controls closer into line with EU norms. (Norway, as a non-EU member, can continue to do what it likes). Brussels, backed by some of the big drinks makers, is keen to iron out the anti-competitive kinks inherent in the restrictions.

But the Social Democratic government in Stockholm is fighting a determined rearguard action to preserve its alcohol policies. In Strasbourg last week, Thomas Ostros, the taxation minister, flatly refused to concede a European Commission demand that Sweden set a date for dismantling the restrictions it imposes on the amount of duty-paid drink travellers can bring in from abroad.

DATELINE

Stockholm: the state's monopoly on the sale of strong liquor causes surprisingly little discontent among Sweden's social drinkers, writes **Hugh Carnegy**

Sweden and Finland won a number of concessions on their alcohol policies when they negotiated EU entry, including keeping their retail sales monopolies. Another concession was the right, already exercised by Denmark, to restrict travellers from importing drink bought at fully taxed, but much cheaper, prices abroad.

Sweden currently limits travellers to one litre of spirits, five litres of wine and 15 litres of beer. The standard rule in the EU allows 10 litres of spirits, 90 litres of wine and 110 litres of beer.

Ostros argued that the issue was a question of social policy – a matter for the Swedish parliament and out of the jurisdiction of Brussels or Strasbourg. His stance reflected a still powerful fear of alcoholism in Nordic countries that stems from the turn of the century when Swedes were downing almost 50 litres of alcohol a year, some five times the average consumption in the EU today.

Present-day restrictions are the legacy of those earlier problems, and low levels of liver disease and other alcohol-related diseases in Sweden continue to provide justification. But there is another reason why the government is so keen to keep up the barriers to booze. Taxes on alcohol make a significant contribution to funding the mighty machine of the Swedish public sector, making up more than 6 per cent of the total tax bill.

The strange thing – to outsiders at least – is that there is not much public pressure on politicians to ease restrictions on drink. People mutter with frustration as queues at the monopoly outlet – obscurely called the System Bolaget, or the System Company – spill out into the street on a Friday afternoon. But opinion polls show little demand for change.

Nevertheless, Swedes are increasingly voting with their drinking arms. Although official figures show alcohol consumption at around six litres per head per year – much lower than in France or Germany, for example – actual consumption is reckoned to be much higher due to legal imports, smuggling and home-brewing.

Egon Jacobsson, head of Vin & Sprit, the state-owned distiller that makes Absolut Vodka, has joined local brewers in calling for lowering of taxes to staunch this flow, which is hitting their sales. He estimated earlier this year that smuggling and illegal consumption accounted for about 15m litres a year, equal to half the amount sold through the System Bolaget.

Anecdotal evidence of boozing is certainly plentiful. As many, if not more, drunken youths can be seen lurching about the centre of Stockholm on a weekend night as in any other European capital. An industry has grown up in Scandinavia around overnight ferry tours across the Baltic Sea to take advantage of duty-free allowances. Citizens in Tallinn, the Estonian capital, count the advent of drunken Finnish tourists as one of the less attractive features of freedom from the Soviet Union.

The social argument for the tough drinking regulations is perhaps being undermined by the determination of those who want a tipple to find it willy-nilly, and the crumbling of frontiers in Europe is making it ever easier to circumvent the rules. Many Swedes believe it is only a matter of time before the country adapts to European norms.

But so long as the government reckons its tax income under the present regime exceeds the income lost to untaxed sales, it is unlikely to make changes. And the Swedish people will have to continue to remember to get to the System Bolaget before closing time on Friday.

The Monday Profile: Ian Schrager, Schrager Hotels

Cool hotelier remodels façade

Ian Schrager tries to keep the shine on the hip veneer which has clad his persona for two decades. But he is wasting his time. The façade has faded to expose a mellow, businesslike patina. He knows it, and you can see he is not unhappy with the change.

The star of New York's night club era – co-founder in 1977 of Studio 54, where a velvet rope at the door barred the uncool from the Warholian orbit – is today a hard-grafting hotelier.

Celebrity is now important to Schrager as a marketing device. But he drops business terms more often into his patter than the names of Mick Jagger, Madonna and the like. The famous, says Schrager, enjoy his five highly styled hotels, as do lesser mortals, because they represent a manifestation of popular culture. "I'm not talking about fashion. I'm talking about culture. Our species never loses the desire to be part of what's going on," says Schrager.

Decoded, the message is that Schrager has found a niche in the US hotel market in attending to a sophisticated, spunky, open-minded clientele which cringes from the globalised uniformity of most hotel chains.

Schrager is resurrecting a worn-out West Hollywood hotel, Le Mondrian, which long ago gave up its role as a muddle-headed manifestation of some other culture. The "Le" has been dropped and the horrifying daubed exterior which formerly pretended homage to Dutchman Piet Mondrian's neoplastic *Stijl*, has been painted white. Now, briefly, the place looks from the outside much as it did in 1959 as an apartment block.

But Philippe Starck, France's dauphin of design, will soon put a stop to that. The squashed lobby will be opened upwards and furnished by the self-styled "creator of fertile surprises". So will the toothbrushes and a tea bar. According to Schrager, the lobby will offer an "Alice in Wonderland" refuge from Sunset Boulevard outside. Guests will enter through a pair of cupboard doors scaled up to a height of 30ft.

When its personality change is complete in December, Mondrian will become a full-paying member of Schrager Hotels. Group income will rise from $35m (£22m) a year now to an expected $43m next year, and Schrager himself expects to be working on his next project, in London.

Teetering on the brink of his first overseas venture, Schrager is contemplating a step into the stock market. "I'm not sure I want to embark on a public offering. I don't understand the implications too well," he admits.

He accepts there may be dissent among US regulators about his early 1980s spell in jail after he and his late partner, Steve Rubell, were convicted on tax evasion charges. "Prison is like an illness that never really goes away," he says.

The financing of his ventures, which include the Delano, which opened last year in Miami Beach, is underpinned by equity partners and respected investors, Apollo Advisors and Amstar. Operational management has been stiffened with top executives from Omni Hotels and South Africa's Sun City.

Schrager works with his nose. Even critics admire what Schrager describes as a talent for "smelling" opportunities and sensing the mood of the times. He long ago spotted a run-down joint in Santa Monica, but his Los Angeles chums warned him against the bad neighbourhood. Shutters, as the place is now known, has become one of the coolest spots for dining and liaising on the California coast.

His percipient pals thought better of the Mondrian, next door to the original House of Blues. Originally asked to pay $46m, Schrager bought it out of bankruptcy in the last slump for $17m. Now, as the travel trade enters a long awaited revival, the hotel is poised for full membership of his tidy little cluster of boutique residences, which this year will bring "35 per cent profit down to the bottom line".

Schrager says he is excited by the London project because he expects lower costs will help him squeeze out margins of 45 per cent or more. Most of all, he says, London is a point of departure for him. On the face of it, he is suggesting he is looking to expansion in continental Europe. He fancies Berlin, Milan, Paris.

But at 50 Schrager may also be reviewing his personal timetable. As he has learnt in the past year, there are few bargains to be had in the US as the economy and property prices swing up.

He pointedly mentions Peter Morton, founder of the Hard Rock Cafe chain, who recently sold out, retaining only a Las Vegas hotel. Is he thinking of himself? His assertion that his designer honcho, Starck, may be a genius raises a similar query.

"Starck's brilliant. If he can sustain it over a long period he could be a genius," says Schrager. If genius-rating in the hotel trade is generally reserved for past masters such as Conrad Hilton, Schrager leaves the impression that being recognised as merely good may be enough for him before he bows out.

Christopher Parkes

FT GUIDE TO

Profits warnings

Profits warnings seem to be in the news.

Yes, they are. Three prominent European companies issued warnings on one day last week: SAP, the German software group, holiday company Club Med, and PolyGram, the entertainment group.

Is this is a bad sign for European companies?

Not necessarily. It's hard to see a link between the problems of the various groups. Only Club Med could blame the European economy, saying it had caused consumers to opt for cheaper holidays. What the trend may signify, however, is that European companies are being more open with their shareholders.

And that is good?

Yes, although you might not think so if you were a shareholder in SAP and saw your shares fall by nearly 25 per cent. But there has been a feeling among international investors that European companies have not always been generous in the information they give out to shareholders. A favoured few (bankers, companies with cross-shareholdings) were perceived to be in the know. So, as far as investors are concerned, better bad news than no news at all.

So why did the shares in SAP fall so much if it was doing the right thing?

SAP is one of the few big European companies to compete in the international software market, a high-growth area. That means its shares had earned a premium price/earnings rating. When earnings prospects faltered, the shares suffered a double whammy – first, as analysts downgraded earnings forecasts, second, as investors reduced the rating, or multiple, they would pay for those earnings.

Why don't companies simply wait until the results are due to tell the worst?

Because they do not want to create a "false market". If they have material information which might affect the share price, they should release the news to the market, so investors are not suckered into paying too much for their shares.

So the UK and the US corporate sectors are paragons of virtue in this area?

Not exactly. But regulators have probably curbed some of the worst abuses. Old City of London hands will tell of how, a decade or so ago, they were regularly tipped the details of leading companies' results a day before they were announced to the world. Plenty of massaging still goes on today.

What does massaging involve?

One tactic is to tip off a Sunday newspaper. A story might suggest that earnings estimates are too high. It might not be an ideal system but at least you can argue that all shareholders can read the paper.

Another method is to use the company's stockbroker. If it starts to downgrade its profits estimates, you can be pretty sure that bad news is on the way. Not that house brokers are always accurate, but they tend to be better than most.

Indeed, most analysts will try out their profit forecasts on the company concerned. John Smith of Bucket Securities will ring up the finance director of Acme Conglomerates and say: "I'm thinking of going for £100m this year." And the man at Acme might reply: "Have you allowed for the costs of our new factory at Cleethorpes?" or words to that effect.

Is there not a danger of insider dealing?

It is a fine line. But the company will not say: "We're going to make £97.3m". It is in the company's interest to make sure the market's expectations are not too far off base.

Why?

Companies that disappoint markets can see their reputations suffer terribly. Hell hath no fury like an analyst whose judgment has been battered. Shares in Matthew Clark fell by almost half in three sessions after it warned that alcopops (alcoholic lemonades and the like) were eating into the cider market. Investors were totally unprepared for the news.

I expect they needed something more than alcoholic lemonade to help them recover.

Well, they certainly weren't toasting the health of the Matthew Clark management. And that would be bad news for the company if a predator came along or if it wanted to issue new shares to help it expand. If the market is prepared, it can respond well. BTR was widely expected to cut its dividend this year. When it did so, but accompanied the bad news with a big restructuring programme, the shares rose on the day.

So what is best practice?

Companies are nervous about briefing individual analysts. So they tend to hold more formal presentations to which all analysts are invited, to make sure the news is disseminated widely. Managers have to be really careful in the US. Investors are quite willing to sue companies and their directors if they feel they have been misled about prospects. Californians will shortly vote on Proposition 211, a measure which companies feel will increase the risk of "frivolous" lawsuits.

These days sophisticated companies have investor relations departments which may well bypass the analysts and brief the institutional investors directly. That way, they are kept abreast of strategy as well as the short-term earnings outlook. However, any substantial change in a company's prospects should still be announced via the Stock Exchange or to the shareholders at an annual general meeting.

Philip Coggan

Stephanie Flanders · Economics Notebook

Weighing up the lesser evil

Middle America is caught between a rock and President Clinton

The dominant theme of the past two US elections was the economic angst of the "forgotten middle class", who felt they were working harder for less pay. They took their sense of downward mobility out on whoever was closest to hand: President George Bush in the case of the 1992 elections, the Democrats who ruled Congress in the case of the November 1994 vote.

The Republican, Patrick Buchanan, tried to put the same bread and butter issues on the campaign agenda this year. But for all the talk of downsizing, and fading American dreams, Clinton looks set to be re-elected next week: less on a wave of anxiety than of widespread ennui. Why has he had such an easy ride?

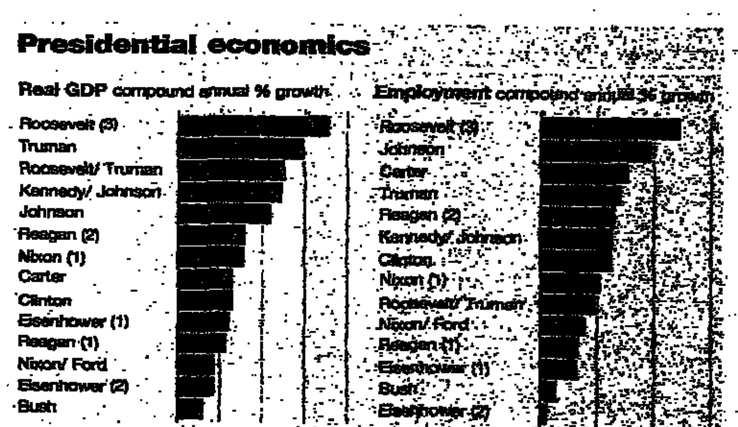
One answer would be that the broad mass of voters feel better off today than four years ago. The vagaries of the economic cycle have served Clinton better than his predecessor. Real GDP has grown by 2.7 per cent per year, on average, since Clinton took office, as compared with a 1.2 per cent average rate under George Bush. Clinton has also been able to keep his promise to create 10m new jobs during the four years. In fact, total non-farm payrolls have risen by 10.7m since the end of 1992.

But these headline improvements have not necessarily had much effect on the average pay packet. The persistence of the 1980s problems of rising inequality and declining real wages into the first half of the 1990s is well brought out in the latest survey of income and employment prospects by the Economic Policy Institute, a US think tank.

It notes that the real hourly earnings of the average production or non-supervisory worker have fallen 0.6 per cent per year since 1989. These figures exclude many sectors that have grown fastest recently. The 0.6 per cent decline compares with a 1 per cent average annual fall in real earnings of line workers in the 1980s. But such employees' wages were still 3.5 per cent lower, in 1995, than at the end of the 1980s.

A cynical explanation for the failure of such figures to translate into rousing campaign slogans might relate to the difference between the average worker and the average voter. For example, young people have been much worse affected than other groups, but are less prone to take their frustrations out on politicians. Only 38 per cent of eligible 18-20 year-olds and 45 per cent of 21-24-year-olds voted in 1992, compared to a 61 per cent turnout for the population as a whole.

So, in theory, the hard-to-forget middle class voter has not really been affected by the continued decline in conditions at the lower end of the labour market. But the young or disaffected are not the only ones to have done badly in the 1990s. The latest bout of rising inequality has, if anything, involved a larger share of US voters. "Only" 60 per cent of workers suffered declining real incomes in the 1980s, but incomes have fallen for all but the top 20 per cent during the 1990s.



Male managers, hardly impassive voters, saw a 1.6 per cent real drop in earnings during 1989-95. That compares to a 7 per cent real increase during 1979-89. The EPI study calculates that even employees who are nine-tenths of the way up the earnings scale have seen only a 0.3 per cent rise in real hourly wages since 1989, against 4.5 per cent real growth during the previous 10 years.

There are probably two reasons why voters do not seem to be planning to take these experiences out on Clinton. One is his skill at putting voters first rather than, as he promised in 1992, people in general.

The president has been more than willing to use elderly Americans' fears of cuts to their state medical benefits system – Medicare – against his opponent, despite the fact that the Democrats' own proposals for reforming the system would cut growth in Medicare spending by only very slightly less than the Republicans'. More than 70 per cent of people over 65 voted in 1992, more than any other age group.

The second, more speculative, explanation would be voters' historical associations with each of the two main parties. The electorate has traditionally turned to Democrats at times of economic insecurity. And, in a sense, the postwar record supports them.

Doug Henwood, editor of the Left Business Observer, has calculated that, since 1949, growth under Democrat presidents has averaged 4.3 per cent, compared to 2.3 per cent under Republicans. Employment has grown at a compound annual rate of 3 per cent under Democrats, compared to the 1.5 per cent growth achieved while a Republican has been in the White House.

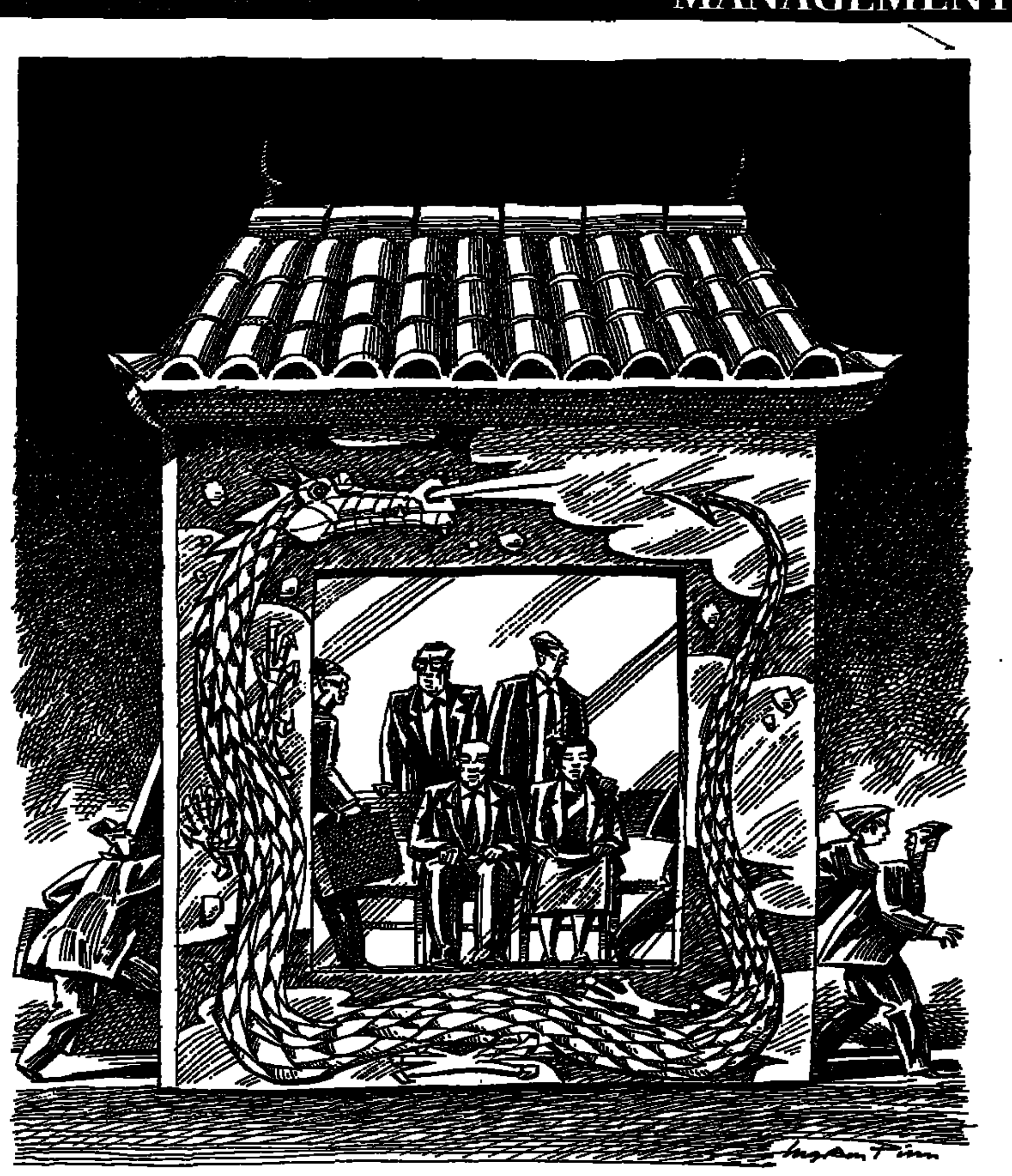
Most surprising, inflation under the two parties has been almost identical: 4.1 per cent under Democrats since 1947, versus 4.0 under Republicans. Real stock prices have grown more rapidly under Democrats – at a compound growth rate of 5.3 per cent a year, compared to 3.5 per cent under Republicans. The bond market, however, has fared poorly under Democrats.

These figures tell us more about the good timing of post-war Democratic presidents than about their economic policy skills. But Republicans are seen as the political guardians of bondholders and big business, neither of whom has risen in public estimation during the 1990s.

Anxious US voters seemed happy to turn to Republicans to address their economic concerns in the Congressional elections of 1994. But Bob Dole has found it hard going this year. His high-profile tax cut proposals have gone down badly, most people associating them with the deficit-expanding tax cuts of the early Reagan years.

So, offered a choice between a return to the 1980s and another four years of Clinton, voters seem to have decided that the Democrat is the lesser evil. Hardly a ringing endorsement – but the votes count, not the sentiment attached to them.

MANAGEMENT



The family in the frame

Adapting systems of control and ownership is the key to Hong Kong's success, says **John Ridding**

Ask a Hong Kong businessman about his worries, and he is more likely to fret about the challenges of expansion, succession and family affairs than the risks of next year's return to Chinese sovereignty.

Such a response is understandable. The rise of regional economies and next year's return to China provide the potential for another phase of rapid growth in Hong Kong's corporate empires. But whether they can capitalise depends on how they adapt the systems of family management and ownership on which their success has been built.

This is not just a Hong Kong concern. Companies across the region are based on family foundations and are now facing similar pressures as they expand. But with some of the territory's big businesses approaching potentially thorny successions, and with the handover looming, Hong Kong's challenges are particularly pressing.

For Mr Victor Fung the stakes are clear. The chairman of Li & Fung, the territory's oldest and largest Chinese trading group, argues that Hong Kong companies must retain the flexibility of family businesses while becoming more professional. "If family-run companies do not take up the challenge, their prospects are likely to be bleak," he says.

Potential pitfalls extend beyond the hazards of feuds and the risk of handing power to a profligate or incompetent son. Expansion places strains on management and capital resources, while the liberalisation of regional markets and the rise in competition from western multinationals increases the need for professionalisation.

"As the company expands you run out of brothers or cousins who make good managers," says Mr Vincent Lo, founder and chairman of Shui On, the construction group. Such constraints have become increasingly serious as family enterprises have outgrown national boundaries, adding to the complexity as well as the size of management.

"For family-controlled companies it is one thing to manage a small and tightly defined operation," says Mr Fung. "But it is quite another to manage the large multinational corporations that have begun to develop as a product of past success."

Capital can also be constrained by family ties. "We needed funds, but the family would not introduce new shareholders or go public," says the chief executive of one struggling textiles group. "By the time they accepted the need for a flotation we were no longer attractive to investors."

Hong Kong companies are responding to these challenges. Li & Fung, for example, has completed a complex restructuring since the late 1980s, when Mr Victor Fung and his brother William bought out family interests. But although day-to-day business is now dominated by professional managers, the trading company has sought to retain the entrepreneurship of a family business by breaking up into separate divisions. "We have 50 business units each headed by a small 'John Wayne'," says Victor Fung, citing profit-share schemes and variable remuneration as motivation.

While such family management buy-outs remain rare, many companies have increasingly turned to professional management. "There is less gut feel and a lot more number-crunching," says one senior industrialist.

Mr Li Ka-shing, who started by selling plastic flowers and now controls one of Asia's biggest conglomerates, has a reputation as an autocratic manager. But while keeping a firm grip on strategic issues, he has delegated operational decisionmaking to subsidiary chiefs, such as Mr John Meredith, the head of the group's port operations.

Smaller businesses such as Vitasoy, a soft drinks company, are increasingly addressing the issue of professional management.

"It would be good to have a Lo at the head of Vitasoy after me, but this is not essential and they would only be there by merit," says Mr Winston Lo, chairman of the company which was founded by his father in the 1940s.

Mr Henry Tang, managing director of Peninsula Knitters and chairman of the Federation of Hong Kong Industries, believes such views have taken hold across corporate Hong Kong. "There is no longer a belief that family members have a right to a job in the family business." He stresses, however, that professionalisation need not exclude family participation, a point supported by the army of offspring returning to family businesses armed with MBAs and corporate experience.

The result of these shifts is a growing number of companies in which family management is curbed, control is retained, and access to capital is secured. Li & Fung, for instance, floated its trading arm in 1993, while Mr Lo at Shui On is mulling a Hong Kong listing to raise funds for expansion, although most of the shares would remain in his hands.

Despite the advantages wrought by such changes, however, many in the territory's business community caution that a balance must be struck. "Entrepreneurial spirit is Hong Kong's advantage," says the son of a tycoon. "You could wipe that out by just importing western models."

A case in point is the property sector. "It is ideally suited to centralised management," says Mr Gordon Redding, professor of management at Hong Kong University. "You can operate it from one desk. As long as the person at the top has expertise, he gets a good reputation and becomes a magnet for capital. It is a much more efficient system than western bureaucracies and feasibility studies."

Several of Hong Kong's top tycoons support this view. Mr Lee Shau-kee, the founder and chairman of Henderson Land Development, keeps a tight grip on the company's operations and takes all meaningful decisions. His record in building one of the territory's biggest developers has attracted funds for expansion. On the mainland, his personal ties with top leaders have helped secure contracts and prime locations.

For all family businesses, however, the challenge of succession remains a thorny problem. Many of the territory's companies were established by migrants fleeing the 1949 communist takeover on the mainland and are now confronting generational change.

Mr Lee says he is fortunate to have sons who want to follow in his footsteps. But while he is training them to take the helm at Henderson – appointing the elder as managing director of Henderson China – he is evasive about the risk of rivalry and the question of whether his sons can fill his shoes.

Of broader concern are the strains imposed on family businesses by the importance of the founder and divergent aspirations among their offspring. "The psychological cement breaks down," says one Hong Kong banker. "The legitimacy of the organisation derives from the person who built it. So as the family gets bigger and the children want to do other things it is harder to hold together."

The strains of maintaining family businesses were evident in the corporate empire of Sir Y.K. Pao, the late shipping and property magnate who had four daughters and no sons. Management of the group was split in the 1980s, with one son-in-law taking the helm at Worldwide Shipping, another at Wharf, the property and infrastructure operation, and a third at World-Wide Investment, the financial arm.

"It was an attempt to maintain some sort of cohesion," says one investment banker. "But it is really a step in the splintering of the group." He sees similar forces at work in many family-based businesses, from the Great Eagle property company, where two of the founder's sons have struck out alone, to Mr Li Ka-shing's family, where Richard Li built up a satellite TV business before turning to property, and Victor, the elder son, has played a prominent role in infrastructure.

"There will be a fragmentation of the families and the businesses of corporate Hong Kong," predicts the patriarch of one family company.

While such upheaval may appear inevitable, it is not unwelcome. It forges informal networks between groups and provides a local version of unbundling. "It is a beneficial and efficient process," says Professor Redding. "The family and the company breaks into new bits, and they go off and do it again."

One implication, says Mr David Li at the Bank of East Asia, is a likely surge in corporate reorganisation, mergers and acquisitions. Such restructuring, he believes, will help maintain the dynamism and competitiveness of corporate Hong Kong. And for the next generation of the territory's business leaders it suggests that fortunes might be made buying, selling and dismantling some of the companies their forefathers built.

Jacqueline and David Gold: 'We talk about the products, not sex'

PARTNERS

Ann Summers

David Gold, 60, chairman of Gold Group International, bought four sex shops called Ann Summers in 1972. His daughter Jacqueline, 36, joined the company in 1979 and, 18 months later, started Ann Summers Party Planners – private parties where women could buy the products at home. They now have 48 shops throughout the UK and 4,500 parties are held each week in Britain and Europe. Their annual turnover is [illegible].

Jacqueline: "When I first joined the company I felt very uncomfortable and didn't intend to stay. At the time, all the executives were men and most women were too embarrassed to go into an Ann Summers shop. It's been both a challenge and an uphill struggle to change the image and make the shops more female-friendly.

"When I set up Party Planners there were a lot of cynics who believed that women weren't interested in sex. Everyone was more or less negative, except my father.

"Although he was hard on me in the beginning, he supported my idea. He let me get on with changing the products and eventually I persuaded him and the board that see-through red nylon babydolls were not the kind of lingerie women found sexy. In the end Dad put his hands up and said: 'OK, I don't know what I'm talking about.'

"We're very honest with one another and not afraid to challenge each other's opinions. Some people might think it strange that I work with my father in this type of business, but we talk about the products, not sex. It's no different from working in Sainsbury and discussing baked beans.

"In the early days I encountered chauvinism, but never from Dad. He's a level-headed, warm, affectionate person. We have a professional relationship in the office, which is very different to the father/daughter one outside. At work I call him David; outside, it's always Dad. And in all these years I've never got it wrong."

David: "Deep down I was always disappointed at not having a son to come into the business. I can say this now things have worked out with Jackie. She's a real pleasure to work with. Bright as a button.

"These days I'm like the wise old dog and let her take the reins. My input is purely on business structuring. I don't get involved in the selection any more. I learnt a long time ago that my judgments were poor compared to hers.

"There was a period when she stopped selling nurses' and maids' uniforms in the mail-order catalogues, which I thought were fun and sexy. I was concerned we were becoming too like M&S, too pretty. Fortunately I was able to persuade her and we brought them back. It's important we have a mixture of the raunchy and the pretty. It's a question of balance.

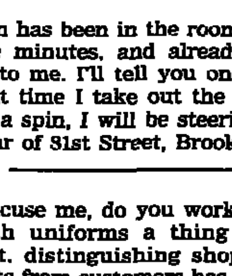
"I had to push her very hard in the early days so nobody in the company felt that she was there just because she was my daughter. It was important she earned the respect of everyone, which she has over the years.

"She's very honest, very approachable, yet she's also a no-nonsense lady. At times I've been surprised by her toughness. She has great business acumen and knows when to cut her losses.

"I get a real kick when I see her featured in magazines and newspapers. People say: 'Oh, you're Jacqueline Gold's Dad', which makes me very proud. It's exciting running a successful business, particularly when your daughter has played a part in that success."

Fiona Lafferty

Bleary-eyed on Central Park South



Richard Tomkins
in New York

In 1989 Robert Stutman, then the top federal narcotics agent in New York, launched one of the city's biggest ever manhunts to smoke out the mobster who killed his colleague, Agent Everett Hatcher. Eventually the Mafia, tiring of the heat, delivered Stutman his prize: the corpse of Costabile "Gus" Farace, killed in a hail of bullets at the wheel of his Pontiac on 81st Street, Brooklyn.

More prosaically, Stutman is now chairman and chief executive of Substance Abuse Technologies, a US company that tests for drink and drug abuse in the workplace. Stutman says about 17 per cent of employees in the US use illegal drugs or alcohol to the extent that it affects their work, and each substance abuser costs his or her employer an average of $7,000 a year in absenteeism, lost productivity and so on.

Companies are simply throwing money away by failing to address the issue, Stutman says. Drugs require a urine test, but usually the problem is alcohol, which requires only a breath test. All you have to do is employ Substance Abuse Technologies and have them whip out their breathalyser whenever you have reason to believe an employee is under the influence.

But isn't "reason to believe" a potential minefield? "Listen," Stutman says. "Richard Tomkins comes to work late every Monday, his eyes are blurry, he is unable to articulate his words, and he gets in fights with his boss all the time. Any court in the land would say I have enough to send you for a test."

It's frightening, really. The man has been in the room barely five minutes, and already he is on to me. I'll tell you one thing: next time I take out the Pontiac for a spin, I will be steering well clear of 81st Street, Brooklyn.

"Excuse me, do you work here?" With uniforms a thing of the past, distinguishing shop assistants from customers has become an exercise in forensic science. And if there is one thing worse than the indignity of being asked if you are a shop assistant, it is the embarrassment of mistaking someone else for one.

Still, things are changing in the US. These days, assistants in the trendier stores can be identified by the radio headsets they use to communicate with supervisors or the stockroom without leaving the customer – for example, to answer inquiries or call up products not on display. Apparently, the idea spread from San Francisco restaurants, where waiters use headsets to speed up communications with the kitchen.

This seemed to me an excellent idea until the day I went shopping in my local supermarket wearing a personal stereo. I was idly probing the exotic fruit when a woman approached me with a bag of Desert Glory cocktail tomatoes demanding to know why they had passed their sell-by date. Too nonplussed to protest, I politely directed her to the proper authorities: but the incident was enough to convince me that uniforms were due for a comeback.

The FT's New York bureau is in East 60th Street. Each day, a beggar – homeless person, if you like – sets up camp outside the subway station on nearby Central Park South. He is fit, intelligent, articulate and good-looking, if a little unkempt. He has painted elaborate signs, one of them quoting Goethe, appealing for donations of money and clothing for the homeless.

I sense you are already thinking what I am thinking: if he devoted as much effort to working as he did to begging, he would be a lot better off. So last week, I asked why he didn't. He said there was no point because the capitalist system was basically a pyramidical structure doomed to collapse, and that a revolution was looming, probably before the turn of the century.

Fair enough; but it emerged that there was another side to the coin. "People tell me to get a job, and I tell them I already have one," he said. "Begging is a full-time occupation. I'm running a small business here; I have to deal with advertising, marketing, psychology and promotion. I work here seven days a week, and if I don't turn up on time, people want to know where I am."

He refuses to say how much he earns. "But I eat well, meet girls; I have a good living." Indeed, he has just returned from a shopping spree to equip himself with enough high-tech thermal clothing and camping gear to stay cosy during the lucrative winter begging season.

Roll on the revolution. Meanwhile I'm off to the nearest sporting goods store to kit myself out with a pair of long johns and a tent. I'll see you on Central Park South.

Lucy Kellaway is on holiday

BUSINESS EDUCATION

Victoria Griffith on a concept that has moved out of the health club and into computers

Trainers to make you sweat

Hollywood stars learnt the advantages of personal trainers long ago: why sweat in public when you can do it in private? Now technologically challenged chief executives are applying the same philosophy to computer training.

Management's upper echelons are turning increasingly to personal trainers to boost badly needed technology skills. In the US, computer education groups such as New Horizons, PDG and Catapult, the IBM subsidiary, say it is a hot new area.

Catapult alone has provided personal trainers to about 8,000 top executives in the US over the past year, at a cost of up to $2,000 (£1,280) for each four-hour session.

Catapult says it provides private tutors to high-profile clients such as computer groups Digital Equipment Corporation and Hewlett-Packard, Commonwealth Automobile, the insurance company, and Mercer Consulting.

"Clearly the trend is there," says Stephen Lynch, a training manager at Catapult. "Three years ago, personal computer training was virtually non-existent. Now it's about half our business and growing fast."

The Internet has turned basic computer knowledge into an essential management tool. Technologically ignorant executives, who once blithely delegated word-processing duties to their personal assistants, now find themselves at a disadvantage without multimedia computer skills.

The ability to pull up the latest sales figures on the screen or communicate by e-mail has become a management staple, and executives who do not know how to plug into cyberspace may quickly find themselves out of the loop.

"They can get their personal assistant to read their e-mail for them during the day, but there are confidentiality problems with that," says Michael Baird, a personal trainer at New Horizons.

"And then there are the times they want to pull up some research on an aeroplane, or hook up a video-conference from their home," he adds.

A shift in public perceptions has also made managers increasingly reluctant to own up to computer illiteracy.

The image of computer buffs has shifted dramatically over the past few years from bespectacled employees in dead-end jobs to billionaire hotshots like Bill Gates, the Microsoft chief.

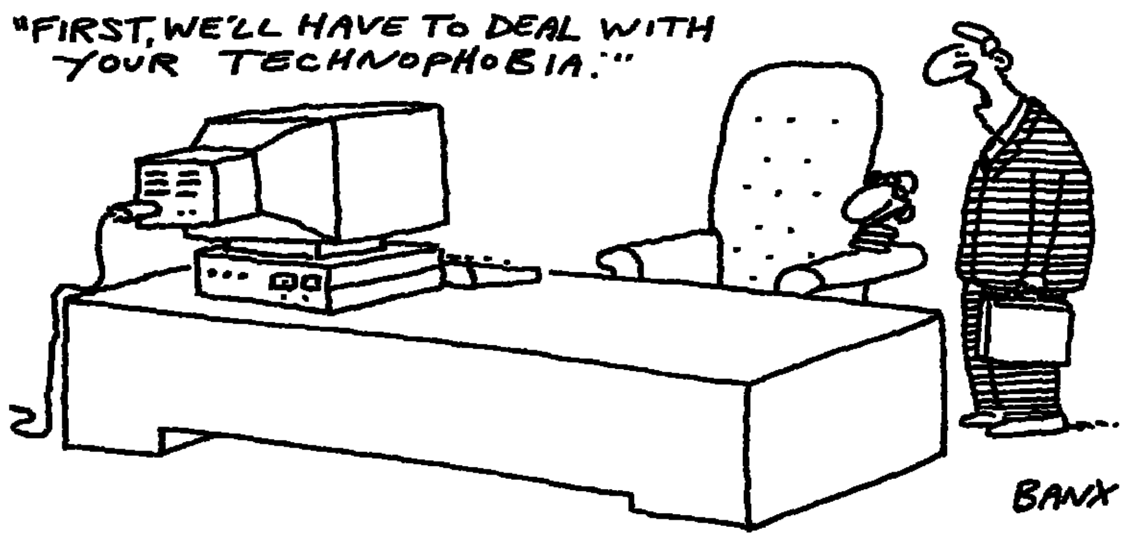
Executives who once joked about their own technological ignorance are now afraid of seeming out of touch. "Our human resources department is always after me to get more computer training, and they're right; it is important," says David Spina, president of State Street Bank in Boston.

Trainers say their clients like the private sessions for a number of reasons. First, it saves them being placed in a general class with employees who may be more technologically savvy than they are. Second, the lessons can be planned around the chief executive's busy schedule, often squeezing half-hour sessions between important meetings. And third, private tutors can tailor instruction to a manager's specific needs and can move at the executive's pace.

Perhaps not surprisingly, most of the demand for these personal lessons comes from older executives, trainers say. "There is a real generational cut-off point," according to David Gaylin, vice-president of Mercer Consulting. "Managers in their 50s didn't grow up with computers and often don't feel comfortable with them."

Overcoming this executive nervousness is one of the main challenges of the private sessions. Yet trainers say even the most technologically deficient manager should take heart.

"Computers have never been easier to use," says Lynch of Catapult. "Once executives see that, they forget their fear."



NEWS FROM CAMPUS

Executives jet from Bangalore to Boston

The Sloan School at MIT has got together with the Indian Institute of Management in Bangalore to offer a two-week executive course to senior Indian executives.

The first week of the course will take place in Bangalore, the second week at Sloan. The course will run for the first time next spring.

Sloan: US, 617 253 6604

Marketing course via multimedia

If you are interested in studying the marketing element of a master of business administration (MBA) course without all the accounting, organisation and general management, Xebec, the interactive learning company, has launched a multimedia CD-Rom training package intended to deliver just that.

Developed by Price Waterhouse in conjunction with Xebec, *Marketing*, as the programme is called, is intended for middle and senior managers and advisers such as lawyers.

The course uses examples of marketing in both a real company and a fictional one.

Xebec: UK, (0)800 585889

How to acquire that savoir faire

If you or your employees need to acquire foreign language skills, then the London Language Show could be the place to visit. A series of business language seminars will take place at the show, which runs from November 7-9.

London Language Show: UK, (0171 973 6401

Going Dutch gets a whole new meaning

Many business schools vie to have the most international MBA class. They would be hard pushed this year to beat RSM Erasmus in Rotterdam, where just 11 per cent of this year's class of 120 are Dutch. Altogether there are 38 different nationalities of student on the 18-month programme.

RSM Erasmus: Netherlands, 10 452 9509.

Michael Thompson-Noel • Sport

Baseball's sweet return to popular acclaim


The New York Yankees all-of-a-huddle after Saturday's World Series-clinching 3-2 victory over the Atlanta Braves Reuter

In the view of New York Yankees manager Joe Torre, whose team clinched their first World Series baseball title since 1978 in New York on Saturday, with a 3-2 victory in the sixth game against the Atlanta Braves: "Baseball's definitely on the way back."

Torre, who is 56, had previously played in, or managed teams in, 4,272 major league games without reaching the World Series – the longest such streak in baseball history. Torre was fired last year by the St Louis Cardinals, and was once even sacked as the Braves' manager.

But on Saturday the Yankees achieved one of the sweetest World Series comebacks by winning their fourth successive game in the best-of-seven series – three in Atlanta plus Saturday's win in New York following two demoralising games at Yankee Stadium which Atlanta won by a big combined margin.

Torre says he thinks the intense public interest shown in his own recent personal history – together with Cal Ripken's surpassing of Lou Gehrig's games-played streak and the death of baseball legend Micky Mantle – has helped baseball regain some of the popularity with fans squandered during the notorious labour dispute that wiped out the 1994 World Series.

The Yankees' win on Saturday came a day after Torre's brother Frank had successfully undergone heart transplant surgery. Torre, who was born in Brooklyn, added: "I can't believe how many people prayed for me just because I haven't been in a World Series and because of my brother."

■ Deborah Camp-Simpson is chic, svelte and inexhaustibly amusing: the sort of Englishwoman normally encountered only in special – and moneyed – circumstances.

She says she is 39. Her claim to fame is that she is the first British woman to obtain a racehorse trainer's licence in France, where would-be trainers are subjected to an unusual and rigorous six-week examination course, which boasts a low pass rate.

You are most likely to see Camp-Simpson – elegantly suited and shod, her blonde head thrown back, telling some wonderful story – at a French racetrack, charming those around her, some of whom may be aristocrats. Or at her training yard at Lamorlaye, a few kilometres from the centre of French racing, Chantilly. Or at a racehorse auction in England, whispering to an equine vet who is telling her something about a horse that he has decided he will tell no one else.

If you are a male, and if she likes you, Camp-Simpson will refer to you as a "doll". Her French jockey, Patrick Alan Sauvat, is a doll. "What a doll! *Such* a wonderful horseman!"

And, being cool, she does not mind if you ask about her husband. "It's Harry," she told me the other day. "Harry Camp-Simpson. A retired millionaire who made a quiet fortune in abrasives. Lives in Hampshire. I see him on a regular basis. He beetles across to Paris in his Bentley to check on me. But remember what they say, Michel: a rich man's wife is never rich. Which is why I have my banker, my gorgeous, beloved Duma." (Duma is a valuable Arab mare, of whom more anon).

Having gained her French trainer's licence, Camp-Simpson set herself up at the yard of a friend on the outskirts of Lamorlaye last March and now has six jumps horses in her care, with four more in pre-training. She is keen to attract British owners, including syndicates (she has a UK-based syndicate manager) and companies. She says she especially hopes to sign UK companies (or French-owned companies operating in the UK) which are interested in French racing as a "novel and prestigious" vehicle for corporate entertainment.

Camp-Simpson says there are two good reasons why UK-based owners, syndicates and companies might want to let her buy and train horses on their behalf. First, French prize money is far more generous than British prize money, especially in jumps racing. Second, the opening of the Channel tunnel, with its three-hour rail connection between London and Paris, is attracting a swell of folk keen on weekend jaunts to French racetracks and nightspots.

In the seven-week period to last Monday, Camp-Simpson had runners in seven French jumps races. Four were placed, winning £12,000 in prize money – far more, she says, than could have been gained in Britain.

"With jumps racing in the UK, prize money is dismally low: typically between £900 and £1,500 for first place. It is a sport for the well-off enthusiast. But in France, prize money for jumps horses at Paris racetracks is around £7,000 for first place at the lowest level, up to about £16,000.

"Training fees are similar to the UK's: around £30 per day excluding vet, farrier, insurance and gallop fees. However, transport [for horses] to all the Paris tracks is free, paid for by the French Jockey Club. And for horses in corporate ownership, the company should be able to claim part of the running costs as a marketing expenditure. Likewise, some of the expenses of corporate entertainment can be offset against tax. And [as is common elsewhere] no tax is paid on prize money."

Camp-Simpson plans to buy ex-Flat racers in Britain for £10,000 to £20,000 each, and school them at Lamorlaye in preparation for French jumps races.

As a pupil-trainer in France, she worked with two top trainers, Alain de Roger-Dupre and Francois Doumen. Before that, she trained and rode Arab horses (as opposed to thoroughbreds), winning pots of prize money, which brings us back to her "banker": the beloved Russian-bred champion Arab racemare known as Duma.

Duma, now nine, was celebrated in Russia. But one day her owners, wanting foreign currency, loaded her into a rough truck and drove her across Europe. Eventually, Camp-Simpson bought Duma for a pittance, £2,000, at England's Newbury horse sales, nursed her back to health, and made Duma a champion again. Duma's first foal was sold by Camp-Simpson for £112,000. The mare's most recent foal fetched £54,000. And Camp-Simpson says Duma herself is now worth £250,000.

When I told Camp-Simpson I wished her many future winners, she told me I was a doll.

Colin Amery • Architecture

Aga Khan's award influences the stars

In New York last Friday the Aga Khan, spiritual leader of the world's Ismaili Moslems, received an award for his part in the promotion of architecture in the developing Moslem world. The Hadrian Award of the World Monuments Fund is presented annually to an international public leader whose patronage has greatly enriched the appreciation of world art and architecture. The Aga Khan's own award programme, and the work of his cultural foundation, are convincing examples of enlightened patronage.

The Aga Khan Award for Architecture began in 1977 and, every three years since then, has promoted its ideas through the selection of winning projects from the entire Moslem world. It grew from the Aga Khan's frustration that western ideas of social and technological improvement were not in tune with the best Islamic traditions, both communal and architectural. During the oil boom years of the 1970s and 1980s in particular, large areas of the Moslem world were transformed into anonymous and insignificant places that simply reflected the industrialised homogenisation of the globe.

The architectural traditions of the Moslem world are those of a flexible formalism that has developed from links with nature. Water, for example, is always present in Islamic architecture, often triumphantly displayed in the great gardens of the Moghul tradition. Themes from nature combine with virtuoso geometric performances encouraged by the Koranic injunction against figurative representation. Look at the carpets of the Islamic world and you sense the patterns of nature at your feet.

The Aga Khan Award encourages the preservation of the past only when it represents architectural excellence. In the last round of awards, announced last year, there were five winners who powerfully developed the links between shelter and conservation. In the old city of Bukhara in Uzbekistan the excitement of becoming a new republic has caused regeneration of the capital as a Moslem city. The whole activity of restoration and rebuilding by the Restoration Institute of Uzbekistan and Tashkent has been adopted by the people as a crucial reassertion of their cultural identity.

The same is true in Sana'a in the Yemen and in some of the older quarters of Tunisian towns – especially the commended Hafsia quarter of Tunis. In Hyderabad in Pakistan the "incremental development scheme" at Khuda-ki-Basti has solved the problem of housing the poor. The key is the provision of land and the gradual funding of self-build houses and services as incomes allow.

Through the award, the "stars" of the international architectural scene have been forced to consider the needs of the developing world. Ecological as well as architectural degradation has been critically examined by the award juries, and benefits have been felt on both sides of the "development divide".

There has sometimes been resentment when princes interfere in the profession of architecture. But the Aga Khan demonstrates that influence can be used objectively, providing it is supported by the freedom of informed intellectual discourse held in public. He is not promoting a dogma, nor is he against the new. Fundamental to the success of his award programme has been his awareness of the needs of those parts of the world where 1bn people live on less than a dollar a day. He shows that architecture can help at all levels, from monument to shelter.

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ TODAY
Alba 4.75p
BAT Int Fin 9⅛% Gtd Bd 2020 £92.50
BSM 2.53p
Black (Peter) 4.13p
Canadian Imperial Bank of Commerce C$0.45
Canadian Pacific C$0.12
Cheltenham & Gloucester 11¾% Pf Bd £2937.50
Close Bros 5.8p
Daiwa O'seas Fin Gtd Amtsd Cap FRN 2004 $15482.84
Fin Recvbls for Secd Transactions No 2 Mezzanine Asset-Bckd FRN 2005 £2008.50
Do Snr Asset-Bckd FRN 2005 £961.04
Do No 3 Mezzanine Asset-Bckd FRN 2016 £1822.02
Hammerson 7⅞% Bd 2003 £787.50
Italy (Rep of) Global FRN Jul 1999 ($ Nts) $14.85
Do Global FRN Jul 1999 (Yen Nts) Y2030.0
Korea Int Merchant Bank FRN Apr 1999 $308.57
Lloyds Bank Ser A Sb Var Rate Nts 1998 £153.14
London Electricity 8⅝% Bd 2005 £86.25
London Forfaiting 3.7p
Mitsubishi Chem 4% Bd 1998 Y400000.0
Do 4.55% Bd 2001 Y455000.0
Nichols (JN)(Vimto) 2.45p
Severfield-Reeve 1.75p
Sherwood Int 1.5p
Toyobo FRN Apr 1998 Y25119.0
Turkey (Rep of) 9% Bd 2003 £90.0
United Kingdom 7⅛% Bd 1997 DM71.25
Wyevale Garden Centres 3.7p

■ TOMORROW.
Bank of Nova Scotia C$0.34
British Gas Int Fin 9½% Gtd Bd 2001 C$95.0
Daiwa Int Fin 8⅜% Sb Bd 2003 $8375.0
Development Sec 0.8p
Elbief 0.8p
Guinness Fin 9⅝% Gtd Nts 1998 C$96.25
Hiscox 1p
Ireland Res Sec Home Mortgages Class A2 Mtg Bckd FRN 2025 IR£1447.87
Do Class B Mtg Bckd FRN 2025 IR£1525.79
Japan Airlines 5.45% Bd 2002 Y545000.0
Do 5.5% Bd Oct 2003 Y550000.0
Kansai Int Airport 6¼% Bd 1999 $312.50
Mitsubishi 4.4% Nts 1997 Y440000.0
Nihon Doro Kodan 8⅞% Gtd Bd 1998 Ecu88.75
3i 10¾% Gtd Bd 2001 £107.50
Vymura 1.6p

■ WEDNESDAY OCTOBER 30
Abbey National Fdg (Jersey) 7⅝% Gtd Nts 1998 A$76.75
Abbey National Treasury 6% Gtd Nts 1997 $60.0
Dartmoor Inv Tst 3p
Dow Chemical $0.75
Eaglet Inv Tst 1.5p
Exco 1.5p
Export-Import Bank of Japan 9% Gtd Bd 1996 Ecu90.0
French Connection 0.5p
Kansai Int Airport 9% Gtd Bd 1996 $450.0
Kwik-Fit 2.1p
Murray Inc Tst 5.1p
Roxboro 2.2p

■ THURSDAY OCTOBER 31
Automotive Precision 1.7p
BPP 4p
Baldwin 1.5p
Banco Real Step-up Fxd Rate Nts 2001 $525.0
Bandt 7% Cm Pf 2.45p
Bankers Inv Tst 8% Db 2023 £4.0
Do 10½% Db 2016 £5.25
Blacks Leisure 5p
Campbell Soup $0.345
Chase Manhattan $0.56
Chemring 4.9% Cm Pf 2.45p
Collateralised Mortgage Sec (No 4) Mtg Bckd FRN 2027 £64.78
Do (No 6) £73.75
Cookson 7% Non-Cm Pf £35.0
Crean (James) Cap 7¼% Irrd Cv Ln 1999 IR3.655p
Creston Land & Estates 6% Cv Un Ln 3p
Dartmoor Inv Tst 6¼% RPI-Lkd Db 2005 £4.072
Dowding & Mills 1.9p
Dunyat Inv Tst Cv Mnthly Div 0.49p
Edison Int $0.25
EFT 0.725p
El Oro Mining & Expln 21p
English Property 9⅞% 1st Mtg Db 1997/2002 £4.9375
Estates Property Inv 10% 1st Mtg Db 2011 £5.0
Do 10% Sec Ln 1993/98 £5.0
Eurodis Electron 3p
Evans of Leeds 11% 1st Mtg Db 2025 £5.50
Exploration Co 10.5p
First leisure 2.51p
Fleming Inc & Grwth Inv Tst Stppd Pf 3.2578p
GGT 3.7p
Global Stock Invs Ptg Pf $ Cash Portfolio $0.1145
Do Euro Equity DM0.22
Do Far East Equity $0.41
Do Global High Inc $0.2115
Do Japanese Small Co's $0.033
Do High Inc 11.16p
Do Smaller Co's $0.105
Guildhall Property 6% Cm Pf 2.1p
Haden MacLellan 1.2p
Haynes Publishing 5.8p
Heavitree Brewery 11½% Cm Pf 5.75p
Hokkaido Electric 6⅛% Nts 2000 $612.50
Holt (Joseph) 14p
Homeloans (No 1) Class A Mtg Bckd FRN 2030 £134.11
Do Mezzanine Mtg Bckd FRN 2030 £166.61
ILP IR0.66p
Independent Insurance 5.3p
Jackson (Wm) 7½% Cm Pf 2.625p
Jasmin Cv Un Ln 1999 £5.8219p
Jermyn Inv Properties 2.4p
Keller 1.95p
Kiln Cap 1.4p
Kleinwort Smaller Co's Inv Tst 1.3p
Lands Improvement 1.75p
Lasmo Oil Production Units 4.9022p
Latham (James) 8% Cm Pf 4p
Liberty Int A Cv Pf 12p
Do B Cv Pf 3p
Do 5½% Sb Cv Bd 2009 2.75p
Litho Supplies 3.15p
Lloyds Smaller Co's Inv Tst 1.85p
Do Package Units 1.85p
London Merchant Sec 7¾% Cv Un Ln 2000/05 £3.875
Lowe (Robert H) 6½% Cm 1st Pf 2.275p
Lowe's $0.05
MSB 2p
Malaya 0.33p
Malaysia 9½% Bd 1998 $475.0
Mayne Nickless A$0.15
McAlpine (Alfred) 9% Cm Pf 4.5p
Minorco $0.21
Nova Scotia (Province of) 16¾% Ln 2011 £8.375
OGC Int 2p
PTS 1.3p
Peel 10% Cm Pf 2.5p
Do 9⅞% 1st Mtg Db 2011 £4.9375
Peel South East 10% 1st Mtg Db 2026 £5.0
Do 11⅝% 1st Mtg Db 2018 £5.8125
Do 12½% 1st Mtg Db 2015/20 £6.25
Pemberstone 1p
Portsmouth & Sunderland Newspapers 7% Cm Pf 3p
Do 11½% 2nd Cm Pf 5.75p
Prudential Fin 8¼% Gtd Bd 2001 $82.50
Ransomes Cm Pf 4.125p
Residential Property Sec No 4 Class A1 Mtg Bckd FRN 2023 £809.85
Do Class A2 £1521.55
Do Class A3 £1490.13
Royal Bank of Canada Fltg Rate Db 2005 $47.36
Schroder Inc Grwth Fd 1.35p
Scottish Inv Tst 4% Perp Db £2.0
Do 4¼% Perp Db £2.125
Do 5% Perp Db £2.50
Scottish & Newcastle 4.6% Cm Pf 2.3p
Do 6.425% Cm Pf 3.2125p
Seagram Distillers 12⅜% Db 2012 £6.1875
Seiyu 4.2% Bd 2000 Y420000.0
Shires Inc 4.1p
Spintab Und Sb Step-up FRN $169.70
Streamline 2.8p
Swallowfield 3p
TMC PIMBS Sixth Fin Nts Iss No 7 Jan 2028 £44.47
Do 3rd Fin Slow Pay Nts Iss No 4B Oct 2029 £162.78
TR City of London Tst 10¼% Db 2020 £5.125
TR High Inc Tst 1.6p
TT 10⅞% Cv Rd Pf 1997 5.4375p
Texaco Int Fin 8% £/$ Cv Ln 1961/99 £4.0
Tops Estates 1.764p
Toronto-Dominion Bank C$0.25
Transamerica $0.50
USF & G $0.05
University of Lancaster 9¾% 1st Mtg Db 2025 £2.4375
Upton & Southern Cm Pf 2p
Vaux 7% Cm Pf 2.45p
Do 4½% A Cm Pf 1.575p
Do 6½% A Cm Pf 2.275p
Verd 2p
Wells Fargo Sb FRN 2000 $47.90
WEW 10½% Cm Pf 1999/2002 5.25p
Wimpey (George) 2p
Woolwich Bldg Scty FRN 1998 £149.01

■ FRIDAY NOVEMBER 1
British Inv Tst 5¼% Cm Pf £1.8375
Compel 3.11p
Dunedin Worldwide Inv Tst 3½% Cm Pf £1.75
Edinburgh Fd Mngrs 8p
Filofax 2p
Filtronic Comtek 0.25p
Fleming Mercantile Inv Tst 1.9p
Fulmar 1.6p
Gibraltar (Govt of) 11⅞% Ln 2005 £5.9375
Graseby 2.7p
Healthcare Operators Grp 1 Class A Mtg Bckd FRN 2021 £90.53
Henderson EuroTrust 1p
Do Units 1p
Highcroft Inv Tst 2.2p
Huntleigh Tech 4p
Independent Newspapers IR1.556332p
Laing (John) 6.4% Cv Pf 3.2p
Lamont 6% Cm Pf 1.05p
Do 5.6% 2nd Cm Pf 2.8p
Do 10% 3rd Cm Pf 5p
Lloyds Chemists Cv Rd Ptg Pf 2005 3.75pLowe (Robert H) 0.1p
Marley 2.1p
Marshalls 10% Cm Pf 5p
Mersey Docks & Harbour 4p
Montreal (City of) 3% Perm Db £1.50
Moorepay 1.4p
NWF 8p
Nynex $0.59
Ocean 5p
Pacific Telesis $0.315
Pentland 1.4p
Retail Corp 6½% Cm 3rd Pf 2.275p
Rugby 1.5p
SBC Comms $0.43
Sanderson Bramall Motor 1.8p
Scottish Agricultural Sec 13% Db 1997/99 £6.50
Scottish Inv Tst 3½% Cm Pf £1.75
Do 3.85% Cm Pf £1.925
Do 4.55% A Cm Pf £2.275
Sema 2.3p
Servomex 2.7p
Singer & Friedlander 1.85p
Do 8½% Cv Sb Un Ln 2009/14 £4.25
Smurfit (Jefferson) IR1.5p
Stat-Plus 5.13p
Taylor Woodrow 1p
Treasury 6¾% Ln 1995/98 £3.375
Whitbread 4½% 1st Cm Pf 1.575p
Do 6% 3rd Cm Pf 2.1p
Do 7% 3rd Cm Pf 2.45p

■ SATURDAY NOVEMBER 2
Cookson 7% Cv Bd 2004 £35.0

UK COMPANIES

■ TODAY
COMPANY MEETINGS:
Benchmark Group, 4, Broadgate, E.C., 11.00
Gartmore Scotland Inv Tst, 125, West Regent Street, Glasgow, 11.30
GT Japan Inv Tst, 125, London Wall, E.C., 12.00
Metrodome Films, 90, Long Acre, W.C., 10.00
Murray Income Tst, Glasgow Royal Concert Hall, 2, Sauchiehall Street, Glasgow, 12.30
Quayle Munro, 8, Charlotte Square, Edinburgh, 12.00
Shield, 8, Baker Street, W., 10.30
Toad, 69, Old Broad Street, E.C., 10.00
TR European Growth Tst, 3, Finsbury Avenue, E.C., 12.30
BOARD MEETINGS:
Finals:
GR Hldgs
Morgan Grenfell Equity Inc Tst
Murray Enterprise
Overseas Inv Tst
Phytopharm
UK Estates
Interims:
Cathay Int
Grampian Television

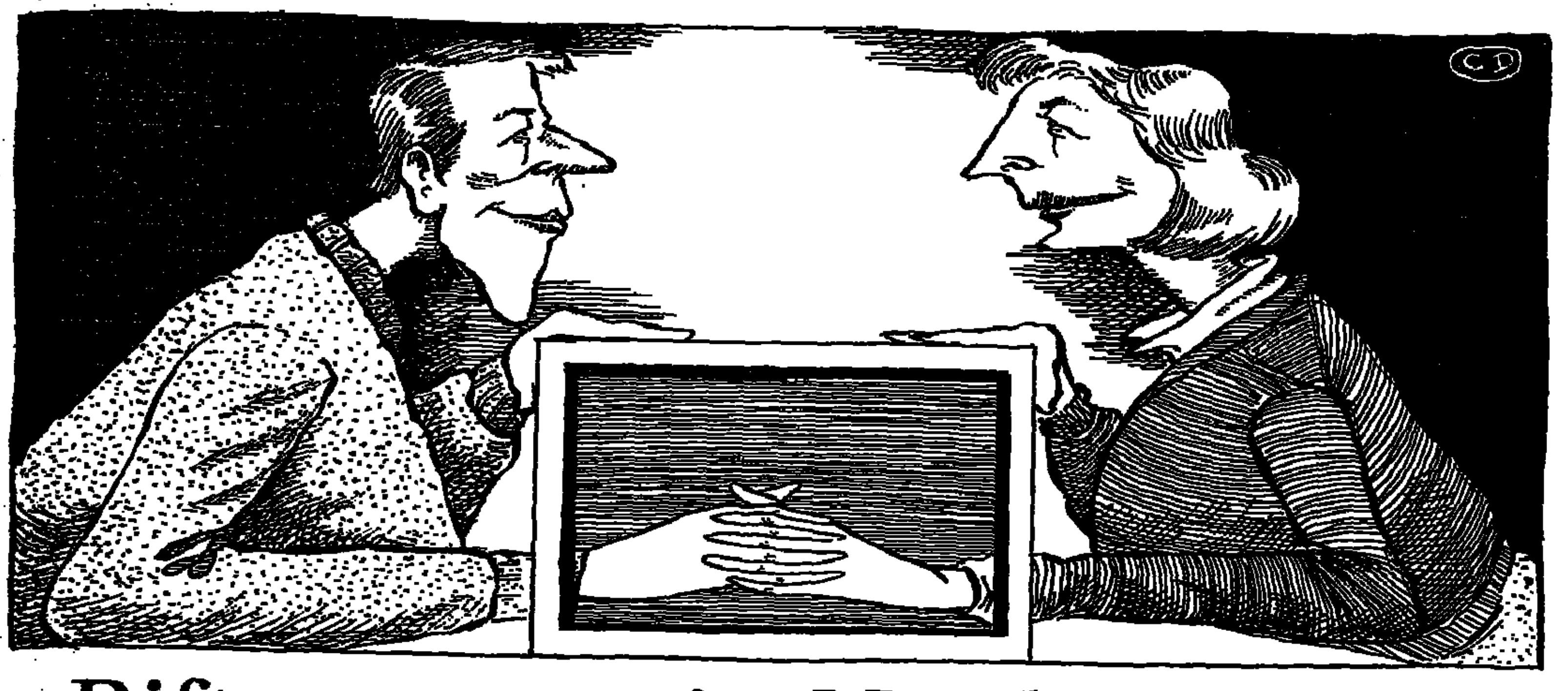
■ TOMORROW
COMPANY MEETINGS:
Bryant, Natl Motorcycle Museum, Coventry Road, Bickenhill, Solihull, West Midlands, 12.15
European Leisure, Hippodrome, Hippodrome Corner, Leicester Square, W.C., 10.00
Go-Ahead, Forte Posthouse Hotel, 1, New Bridge Street West, Newcastle, 4.00
Harmony Property, 2, Sergeants Inn, E.C., 11.00
Henderson EuroTrust, 3, Finsbury Avenue, E.C., 3.30
Welsh Industrial Inv Tst, 36, Elder Street, E., 11.00
Wessex Tst, Institute of Directors, 116, Pall Mall, S.W., 12.00
BOARD MEETINGS:
Finals:
Pressac Hldgs
Interims:
City of Oxford Inv Tst
Northumbrian Fine Foods
Thames Water

■ WEDNESDAY OCTOBER 30
COMPANY MEETINGS:
Sirdar, Cedar Court Hotel, Bradford, 12.00
BOARD MEETINGS:
Interims:
Betterware
El Oro Mining
Havelock Europe
Sainsbury (J)

■ THURSDAY OCTOBER 31
COMPANY MEETINGS:
CRT, Eastham Hall, Eastham Village Road, Eastham, Wirral, 12.00
Dowding & Mills, Botanical Gardens, Westbourne Road, Edgbaston, Birmingham, 12.00
Goodhead, Chaucer Industrial Estate, Launton Road, Bicester, Oxon, 10.00
Independent Energy, 29, Gresham Street, E.C., 11.00
Lloyd Thompson, Beaufort House, 15, St Botolph Street, E.C., 12.30
PizzaExpress, Alban Gate, London Wall, E.C., 9.30
Surrey Group, 8, Baker Street, W., 10.00
BOARD MEETINGS:
Finals:
Air London
Interims:
Body Shop
Bertram Hldgs
Cairngorm Building Soc. Inv Tst (Nos 1-10)
Kleinwort Emerging Markets
Pilkington
Rowe Evans Inv

■ FRIDAY NOVEMBER 1
COMPANY MEETINGS:
British Sky Broadcasting, Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, S.W., 11.30
Ricardo Group, Institution of Mechanical Engineers, 1, Birdcage Walk, S.W., 11.00
BOARD MEETINGS:
Interim:
Burtonwood Brewery

Company meetings are annual general meetings unless otherwise stated.
Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.



Rifts appear in Net love affair

Cyberchat is not real life, but then what is? asks **Victoria Griffith**

Cyberspace romance has become a favourite topic of US talk shows and tabloids. Interviewees often complain that their husbands and wives were stolen by virtual homewreckers, while others reminisce about their romantic escapades on the Internet.

Grass-roots fascination with such matters reflects a sense that Net-based communities are unique, and may have a profound impact on so-called real life. Yet a growing number of observers believe the days of Net-based communities are numbered.

If they are right, the Net may soon cease to exist as a separate society, and become little more than a communications, research and entertainment medium. Rather than using the Net to communicate with people they never meet, the theory goes, people will rely on cyberspace as a communications support for real-life relationships.

"The Internet doesn't feel like a community to me any more," says Gary Wolf, executive producer of the online magazine HotWired. "There was a time in the Net's early days when I knew pretty much everything that went on in areas like Usenet and The Well [some of the first Net communities, largely text-based]. But now, there's just too much going on, too many people using the Internet to form relationships very easily."

Romantic souls are not the only ones interested in trends in cyberspace. The Net's effect on the way people relate to each other has excited – and worried – the business world.

Cybermall creators hope that the ease of Net shopping will eventually counter the appeal of downtown stores. Hotel operators fret that video-conferencing will one day discourage the executive from travelling. Bar owners worry that the thrill of online friendships will someday keep people at home.

Yet all these hopes and fears may prove unfounded. Already, companies say they see signs of the demise of the virtual community. According to America Online, for instance, most people using e-mail on its service are communicating with people they already know. Relationships that exist only in cyberspace are considered rare.

"I think the Internet works basically like a telephone to a lot of people," says David Wilcox, head of the UK Communities Online project, which promotes debate on the Net's influence on society. "People use it to set up appointments, and send news and friendly greetings to friends and business associates."

New plans by companies like AT&T for live voice transmission across the Net may soon make the comparison with the telephone even more apt.

The prediction that cybersurfing would tether people to their screens is also proving unfounded. The Net is increasing rather than reducing the desire for physical contact, according to Patrick McGovern, chairman of the International Data Group, a prominent technology research firm.

"A few years ago, we thought our conference business would die a slow death, as people held more meetings in cyberspace," says McGovern. "We found that the opposite was true. People who had met each other online wanted to meet face to face. They would ask each other if they would be attending the such-and-such conference, and they'd go out of their way to be there."

According to McGovern, IDG's conference business has ballooned, from yearly growth of about 6 per cent in the early 1990s to 25 per cent annual expansion in the last two years.

Whether the death of the virtual community is a good thing or not is hotly debated. Net society has been portrayed as angel and as demon. Some observers, like Howard Rheingold, author of *The Virtual Community*, see cyberspace as a utopia.

According to Rheingold, people on the Net are not judged by their looks or accents, but by their wit and writing skills. Through focused discussion groups, they get to know others with the same interests. Even people with physical handicaps, he says, can be social butterflies, flitting from one chat-room to another. "I get tired of people criticising virtual communities. Is it really that much better to meet someone at a singles bar?"

Others say an obsession with virtual friendships has affected their lives. "I used to spend a lot of time talking with people online, until I had to move apartments one weekend and I realised there was no one in town to help me," says Mae Kadi, a Californian computer consultant. "It may be interesting to discuss politics on the Net with someone in Missouri, but that person can't help you carry the sofa."

Rheingold admits to colouring his communications with sentences like "Howard smiles ironically" or "Howard takes offence and it looks like he's going to punch you in the nose." Rheingold sees these affectations as witty and humorous. To Kadi, they are ridiculous, and indicate that the realm of virtual communications lacks an ingredient essential to human communication.

Kadi also questions the value of forming relationships based on shared interests, the hallmark of virtual society. "What used to make a village interesting was that you'd know the plumber, the minister and the rich millionaire on the hill," she says. "Even if I go out with friends from work today, we have contact with people with different lives, like the waiter or the taxi driver. On the Net, you make a beeline for people who are just like you."

Rheingold counters that the old village community is just a fading memory. "How much diversity do you get in a typical suburb?" he asks.

Many observers believe cyberspace's real value as a social tool is as a support for face-to-face relationships. Net backbone provider BBN sees a big market in providing hook-ups for intranets: networks that allow workers in a single company or physical community to communicate. "That area is booming right now," says John Curran, chief technology officer for the company.

If these trends are any indication, the Net may already serve mainly as a support medium for real-life communities.

"I think people are using e-mail more to set up meetings than to replace them," says Stanley Lepeak, an analyst at the research group Metagroup. "The virtual community people talked about in the early years of the Net is just an anomaly. Cyberspace will probably end up changing real-life interaction less than people had originally predicted."

Tim Jackson

Snail mail swan song

A few weeks ago, I received one of those annoying calls that are increasingly familiar in the PR business. Claiming to be a market researcher, the caller wanted to ask me a string of questions about the Royal Mail, Britain's national post office, and the threats it faces.

If you are a postal specialist, you know that one of the big concerns of national post offices in the industrial world is "remailing" – the practice, increasingly common with big companies, of sending letters in bulk to a country where postal rates are low, and then posting them individually to their destination.

It works for domestic bulk mail as well as international: for instance, it is cheaper for a Japanese company to send 10,000 letters to Tokyo addresses by shipping them out to Hong Kong and back than to put them in a local postbox. Countries with high postal tariffs hate this.

My argument to the "researcher" was that although post offices get worked up about remailing, they are missing a much bigger issue: competition from electronic messaging. Post offices like to claim that they have a legal "monopoly" on letter delivery up to a certain price.

They don't. A high proportion of letters in the mail are one-page typed messages that could just as easily go by fax or e-mail. Competition from these services already explains why postal volumes are rising so slowly – by only a few percentage points a year, compared to double or even triple-digit growth for electronic messages. This year, for the first time, more messages were carried in America by e-mail than by US Mail. As Net access becomes ubiquitous, revenues from "snail mail" will decline.

Yet post offices are sanguine. They point out that e-mail is still difficult to use when you want a long document to look the same to the recipient as to the sender, and that, as the hassle of ensuring compatibility costs money, most organisations will find it more economical to send long documents as atoms (printed on paper) instead of bits (as electrical signals).

I saw this illustrated in a striking way when trying to send a book manuscript to a publisher in New York. Delivering the book across the Net by e-mail took less than five minutes, and cost only a few pennies for the local phone call.

But it proved too complicated for the publisher to print it out with the chapter breaks and folios, so this weekend, a fat ream of paper, double-spaced and single-sided, will go out to New York by FedEx, at a price of $50 (£32) or more.

Such problems create an opportunity for small-scale remote printing, in which the document travels the international leg of its journey electronically but is then printed out on paper and delivered by hand.

That will cost a lot more than e-mail, but it can be quicker and cheaper than courier service or air mail. And while most of the world remains unwired, it will be an extremely valuable service for people with a Net connection.

Kinko's, a chain of US print shops, has a service called KinkoNet which allows clients to send a document to the company electronically and have it printed out at one or more of its branches. So if you are flying from Chicago to California to make a presentation, you no longer need to stuff 200 copies of the handouts in your suit-carrier; instead, you send them to Kinko's and have them printed, stapled and ready for collection at the San Francisco branch closest to your hotel.

That, at least, is the theory. When I tried to investigate the service for sending manuscripts, I discovered a few complications. First, there is a $50 monthly charge before you start. Next, you pay $5 per branch if you want the document printed in different places at once. Most inconveniently, the documents have to be in Adobe Acrobat format. That is an admirable technology for exchanging camera-ready artwork if your company is permanently wired into the Net, but not for swift document exchange: a manuscript like mine in Acrobat would take a week-long phone call to send.

Before systems like KinkoNet become user-friendly, they will need to accept standard word-processing formats like Word, which are much more economical with their data; and they will need to be a more plausible bet for the once-off casual user. An ideal solution would be to use a combination of e-mail and the World Wide Web to allow people on a one-off basis to send documents for remote printing, paying instantly by credit card.

There are problems to solve, the most important of which are the needs to guarantee that the document will come out right and that it will not get into the wrong hands en route. A Son of KinkoNet could ultimately be a big and very successful business.

Printing specialists retort that such services – electronic data exchange combined with remote printing – already exist on a much larger scale in the printing industry.

But just now it makes more sense to send information around the world when printing 1m copies of a four-colour magazine than a few thousand sheets of black and white. In future, even the microscopic remote jobs will be cost-effective, and price competition for photocopying and small-scale printing will be international instead of local.

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Cookies leave a bitter taste

Invasive data collection is widespread, writes **Lisa Bransten**

Some time ago *The New Yorker* magazine carried a cartoon of a canine Web surfer telling a fellow hound: "On the Internet nobody knows you're a dog."

But the anonymity much valued by early Net users is fast disappearing, and the blame lies with "cookies". Cookies are software programs which companies use to gather information about visitors to their sites on the World Wide Web. A cookie can track the times you visit a site, record moves between pages, and store registration information which may allow e-mail later.

Cookies are galling to Web surfers as sites plant them on to the hard drives of PCs. Anyone who has cruised the Net has probably been force-fed a cookie or two. You can find them by searching your computer's hard drive for a file called "cookie". Opening it will reveal a list of all the Web sites that have handed out cookies.

Some of the most private information that cookies store is offered voluntarily on the registration forms needed to access Web sites. The information, which may include a user's e-mail address, interests, birthday and/or marital status, is then loaded into a cookie and stored on your computer so that the company that planted it can access this information whenever you visit its Web site.

Such information is fast becoming a form of Net currency. Indeed, gathering and selling this information could soon rank alongside advertising as an important source of Net revenue, says Eric Johnson, a professor of marketing at America's Wharton School of Business. In Johnson's view, the most successful sites will probably offer specialised services to their users based on personal information.

Parent Soup, a Web site designed to give parents advice and allow them to communicate (*www.parentsoup.com*), uses personal information to track the interests of visitors.

At present, the information is used primarily to improve the site's content, but the Net content company iVillage is also keen to help advertisers reach their audiences more precisely, says Elaine Rubin, the company's senior vice-president of interactive commerce.

Rubin, of the new media committee of the US Direct Marketing Association, a trade body, recognises that such uses of online information make some people uncomfortable. But she believes that benefits such as customised notification of sales and consumer information will dispel fears.

However, the commercial use of personal information has prompted nervous postings on Web sites and electronic bulletin boards across cyberspace.

Netscape Communications and Microsoft – makers of the two most popular Net browsers – have adapted their latest software so that users can prevent cookies being planted on their PCs.

But blocking all cookies would mean that consumers would have to enter long registration forms every time they wanted to enter certain sites.

In an effort to stem the backlash against cookies and other invasive technologies, US organisations such as the Direct Marketing Association and the Electronic Frontier Foundation, a not-for-profit civil rights organisation, are raising public awareness.

The Direct Marketing Association is prodding its members to disclose exactly what type of information they collect and how it is used. It has posted its own privacy policy on its Web site as an example (*www.the-dma.org/privacy/*).

The Electronic Frontier Foundation hopes to take disclosure a step further. Earlier this year, with several companies engaged in electronic commerce, it formed an organisation that will license special logos to Net businesses provided they agree to submit to audits of their information practices. The group, eTrust, hopes to have the project up and running early next year.

Three symbols are planned: for sites that do not collect information about visitors; for sites that collect information for their own use; and for sites that may sell information to third parties such as direct marketing companies. The logos will start at about $2,500 (£1,602) a year. Proceeds will pay for audits and consumer education projects.

Cyber sightings

by Stephen McGookin

● One of the most talked about sites recently has been Firefly (*www.firefly.com*) which uses intelligent agents to recommend movies or music based on your submitted preferences. Now there's Yearling (*www.yearling.com*, unsurprisingly) which dishes up a personalised television listing as a result of subject choices. If you could just get it to set the video, too . . .

● Money$earch (*www.moneysearch.com*) is an excellent resource with good links covering a range of financial sectors, along with a market snapshot. I like the time counter: "You have 1 hour and 28 minutes left to trade today." Well worth bookmarking.

● You can order reports on US initial public offerings through analyst Manish Shah's IPO Maven site (*www.investools.com/cgi-bin/Library/mavn.pl*), which also offers an IPO calendar and breaking news features. Straightforward layout, registration required.

● Yellow Window (*www.yellowwindow.be*) is a management consultancy based in Brussels and Antwerp, specialising in international business development. At its site you can request a free management brief, while a two-monthly newsletter Growth International News will be added to the site from the end of this month. The company also plans to make a business opportunities database available next month.

● Another consultancy with an interesting, nicely designed site is Fairplace Consulting (*www.fairplace.com*). This City of London firm specialises in training and career counselling for UK banks and financial institutions.

● UK bookseller Waterstones has set up a very pretty site indeed (*www.waterstones.co.uk*) with plenty of interesting content and some nice graphics. Word to the wise, though: don't enter the Book of the Century contest. I'd already sent my entry before I got to the small print that said it closed on October 11.

● For anyone interested in investing in or doing business with Malaysia, The Edge (*www.bizedge.com.my*) has listings of corporate and markets news.

● Anglogold, the gold division of the Anglo American Corporation of South Africa, has put up a site (*www.aac.co.za*) which has Anglo's goldmining quarterly results to September and is interesting for its stern warning against accessing from the US.

steve.mcgookin@ft.com

Financial Times on the World Wide Web
www.ft.com
Updated daily

Travel News • Roger Bray

Lean machines

Europe's fast train links continue to expand. In a new joint venture between French and Italian railways, a direct TGV service now operates between Paris and Turin and Milan, and it is no longer necessary to change at Lyons or Lausanne. Italian tilting trains have begun operating between Lyons and the two cities, cutting the journey times by up to an hour.

Sydney boost

The stimulus of hosting the next Olympics has boosted major expansion at Sydney's Convention and Exhibition Centre. A development plan includes the addition of a new, 1,000-seat auditorium and adjacent rooms, 3,000 sq m of extra exhibition space, banqueting facilities for 1,000 guests, and a monorail connection to the city's central business district.

Medium-sized conferences for between 800 and 1,000 delegates have been falling through a gap between hotels, which can handle up to about 500, and the existing centre, which usually caters for conventions of between 1,600 and 3,500 people.

Tough limits

Business travellers flying with Canadian airlines face strict new curbs on the amount of hand baggage they may take aboard.

Previously the industry simply followed guidelines. Now Canada has carved limits in legal stone. They are: two pieces of luggage, with maximum combined measurements of 9in x 16in x 22½in (23cm x 41cm x 57cm), plus a garment bag which, when folded double, is no more than 9in x 22in x 22½in; and one of the following: a laptop, a briefcase or a woman's handbag.

Carriers such as Air Canada are settling disputes over dimensions by passing bags through scanners. And don't imagine you'll get away with it by concealing your luggage and taking it through the departure gate. They've got scanners there.

Tea service

Privately owned Indian airline Jet Airways has started services between its Calcutta base and Jorhat, on the Brahmaputra River in the north-eastern tea-producing state of Assam.

The city is a road and rail hub, lies at the centre of a leading agricultural area and is noted for the manufacture of jewellery. Flights are on Wednesdays and Fridays by Boeing 737 twinjet.

Costly mistake

Beware bogus taxis charging exorbitant fares from Paris airports, warns a new booklet for business travellers published jointly by American Express and Air France.

Information is largely stripped down to bare essentials. It tells you, for example, where to find a hospital casualty service with English-speaking staff. The booklet, about as bulky as the average air ticket wallet, is available free to travellers booking with Amex's corporate card, or through its business travel agencies.

In the swing

First-class and business-class passengers flying with Taiwan's Eva Air are to share Virgin Atlantic's highly individual Clubhouse lounge at London Heathrow's Terminal Three – four-hole indoor putting green, hydrotherapy bath, computer games and all. The arrangement starts on November 1.

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
[illegible]	[illegible]	[illegible]	[illegible]	18	20
Hong Kong	[illegible]	30	30	30	31
[illegible]	[illegible]	[illegible]	[illegible]	14	11
Frankfurt	14	[illegible]	8	9	10
[illegible]	[illegible]	[illegible]	16	18	15
L Angeles	[illegible]	21	20	27	23
[illegible]	[illegible]	[illegible]	14	14	10
Paris	[illegible]	22	12	13	11
[illegible]	[illegible]	[illegible]	[illegible]	13	9

Information supplied by Meteo Consult of the Netherlands

Chips are just the ticket

The old paper airline ticket will soon be a thing of the past, says Scheherazade Daneshkhu

Airline tickets are going to smarten up their act. The familiar booklet with faint writing on crackly carbon paper is unlikely to be much in evidence in 10 years.

Instead it will be bred to become intelligent – clever enough to know who you are, where you are going and where you should be sitting.

Last week the International Air Transport Association set out common standards for the way electronic ticketing and smart cards can operate internationally between airlines.

Once the global standards are in place next June, electronic ticketing has the potential to accelerate. Mike Müller, senior manager of passenger services at the association, says that, by 2005, "the vast majority of tickets are likely to be intelligent and the old paper tickets will gradually fade away".

To travel hopefully: electronic ticketing should cut long queues

Airlines are experimenting with different types of ticketing. Electronic ticketing – so-called ticketless travel – involves booking with a credit card. No bits of paper need to be exchanged – you just turn up at the airport and show your credit card.

But that leaves the problem of coming up with a quick automated identification. Some airlines, such as US carrier Delta and Lufthansa, the German flag carrier, are experimenting with integrated circuit cards, or "smartcards" on domestic routes. An alternative is the automated ticket and boarding pass, already in limited use. It is less intelligent than a smartcard since it only has a magnetic stripe in which to store information rather than a chip. Swiped through a machine, the boarding card reconciles passengers with their baggage.

But it has the potential to develop into a new-style alternative to the paper ticket, which could be attractive to travellers who prefer a piece of paper in their hand.

Electronic ticketing is attractive to airlines because of its potential to reduce costs. Müller says that a conventional paper ticket typically costs $8 (£5) to process compared to between $1 and $2 for one issued electronically.

It can also cut down on distribution costs. Up to 85 per cent of tickets are issued by a travel agent in some markets, even though only 70 per cent are ordered through one, says Iata. This is because a traveller may book directly with an airline but request that the ticket be sent to a travel agent. The agent then gets commission from the airline for writing out the ticket.

The advantage for travellers is the promise of quicker and more convenient travel, particularly where last-minute changes to plans are concerned. These can be made on the phone, cutting out the need to have the ticket physically altered which can involve standing in a long queue at the airline's desk.

United Airlines, which introduced electronic ticketing on its domestic routes in the US last year, says that just under 40 per cent of its domestic tickets are now issued electronically. "We expected it to be popular and have found that some of the concerns travellers initially expressed about 'what if I turn up without a ticket in my hand and the computer knows nothing about me?' have disappeared against the benefits of not having to carry a ticket," it says.

United plans to expand the service internationally next spring. Some airlines already operate electronic ticketing on international routes. EasyJet, the UK-based low-cost carrier, which only accepts direct bookings, was established last year on the ticketless concept.

But operating the system between airlines is trickier, since it involves setting up compatible systems. Airlines are likely to take advantage of the new standards initially only with their alliance partners.

One problem for airlines is how to communicate the limits to their liability to passengers. This takes up much of the small print in existing tickets. Iata suggests that airlines issue an itinerary receipt once a booking is made, drawing the traveller's attention to the limits which are set out under the Warsaw Convention. Additionally, by printing the amount paid on the receipt, travellers have the comfort of being able to prove their purchase if necessary.

Big Blue on board

Liam Halligan and George Parker on new technology to speed up the immigration process

London Underground's "rottweiler" ticket gates are perhaps an unlikely source of wisdom. But for Jeff Mortner, worldwide business manager for the FastGate system, they were inspirational.

Mortner has overseen IBM's development of an immigration clearance system where passengers swipe a card through a machine and then place their hands on an electronic reader – a process which can be completed within 15 seconds.

Travellers proceed if their hand geometry corresponds with the image taken at enrolment. Immigration officials stand by to intercept anybody who merits further questioning.

Mortner recalls: "I was at Piccadilly and was impressed by how passengers moved quickly through the gates. So I spent a while talking to the attendant about how people try to get through without paying."

IBM says it has a "significant commitment" to making its system standard worldwide, with plans for considerable development over the coming five years. Next April, FastGate will be pioneered at Bermuda airport, which handles about 600,000 passengers a year. And the company is talking to other airports around the world, including London's Heathrow and Frankfurt.

Jack Gordon, general manager of Bermuda airport, is delighted. "We want a convenient service for our customers but have to maintain stringent controls," he says. "This new system will cut our passenger processing times in half."

The significance of the IBM system is that the passport information could be carried on credit cards, opening it to a huge potential worldwide market.

Geoffrey Lipman, president of the World Travel and Tourism Council, says the IBM development is "particularly important", but adds that its success on a global scale depends on international agreement and common standards.

The council is already working with leading airport operators, airlines and companies to try to get agreement on a common approach to rapid immigration systems. "We believe the number of air travellers will double in the near future, and that will put huge pressure on airport space and border and immigration authorities," says Lipman.

A rival electronic immigration system, also using a swipe card and handscan, is already up and running in New York City. Developed in-house by the United States' Immigration and Naturalisation Service, the INSpass system now operates as a pilot scheme at John F. Kennedy and Newark airports.

More than 60,000 passengers are enrolled in the INSpass programme, having received their cards after interviews with immigration authorities. So far, only "low-risk" passengers have been admitted, including citizens of the US, Canada and Bermuda, as well as some other foreign nationals with diplomatic or frequent-visitor status.

Airport officials at JFK say inspection times as low as 11 seconds have been recorded. When asked about IBM's technology, Brian Jordan of INSpass says: "We are thoroughly satisfied with our system at the present time. It was developed here, and it is maintained on-site."

Yet IBM is convinced that its FastGate system is better suited to a global application than INSpass. Mortner believes the system could be in wide use within five years. Whether both systems spread, or neither, electronic immigration procedures, coupled with electronic ticketing, are set to revolutionise air travel.

But given the diplomatic co-ordination required to facilitate enrolment between countries, setting up a fully integrated electronic immigration service around the world may take some time.

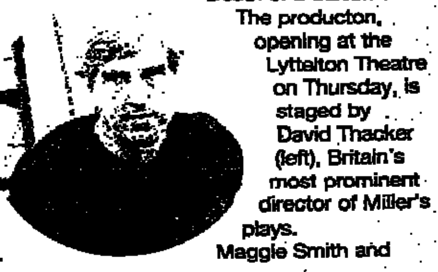
And time is of the essence for Mortner. FastGate's Bermuda tests will start just before the peak of the island's tourist season: "It'll be the fastest way to the honeymoon suite or the beach," he says.

ARTS

OPENINGS

NEW YORK
The first new production of the season at the Metropolitan Opera is *Carmen*, starring Waltraud Meier and Placido Domingo. James Levine conducts, Franco Zeffirelli (left) designs and produces. The first night is on Thursday.
A major Corot retrospective first seen in Paris this spring, comes to the Metropolitan Museum of Art tomorrow. It examines his entire career, with 150 paintings from the early 1820s to the mid-1870s.

LONDON
Samuel Beckett's great but bleak play, *Happy Days* – currently also being performed in Paris in Peter Brook's new staging – comes this week to the Almeida Theatre on Wednesday, directed by Karel Reisz, with Rosaleen Linehan (right) and Barry McGovern.
Alun Armstrong stars in the National Theatre's new production of Arthur Miller's *Death of a Salesman*. The producton, opening at the Lyttelton Theatre on Thursday, is staged by David Thacker (left), Britain's most prominent director of Miller's plays.



Maggie Smith and Margaret Tyzack bring two of Alan Bennett's *Talking Heads* monologues (originally written for TV) to the London stage, opening tonight at the Comedy Theatre after their success this summer at Chichester.

Conducted by Libor Pesek, the Czech Philharmonic orchestra makes its long-awaited return to London tomorrow, followed by visits to Manchester, Birmingham and Newcastle, and a final concert in London on Saturday.

MUNICH
A new production of *Ariadne auf Naxos*, conducted by Colin Davis and staged by Tim Albery, opens at the Bavarian State Opera tonight. This is the company's first new Strauss production since Peter Jonas became intendant four seasons ago. The star attraction was to have been Julia Varady's debut in the title role – but illness has forced her to withdraw, and her place is taken by Luana DeVol.

COPENHAGEN
The Royal Danish Ballet stage a new *Swan Lake* in Copenhagen's Royal Theatre. The producer is Peter Martin, director of New York City Ballet.

EDINBURGH
A retrospective of Anne Redpath (below), one of the best-loved Scottish artists of this century, opens at the Scottish National Gallery of Modern Art on Saturday. Another exhibition, opening at the National Gallery of Scotland on Thursday, features German Renaissance prints from the British Museum, coupled with Durer's renowned painting of St Jerome.

Why Russia faces cultural meltdown

The arts are under seige as once-great institutions are threatened with total shutdown because of lack of funding. John O'Mahony reports from St Petersburg

For the chilling announcement that their city and their country was facing imminent cultural meltdown, St Petersburg's artistic elite could hardly have found a better setting. The toppled, lopped-off Doric columns, crumbling friezes and mouldering cornices that make up the scenery of the Bolshoi Drama Theatre's new production of *Antigone* could have been read as a tacit metaphor for the current decimated post-Soviet state of the arts in Russia.

And when the directors of more than a dozen of St Petersburg's elite cultural institutions – among them such world-renowned landmarks as the Mariinsky Theatre, the Philharmonia, the Hermitage and the Russian Museum – shuffled on stage to deliver their proclamation, the group was curiously reminiscent of the Greek chorus in a Sophoclean tragedy. In these circumstances, the message they had come to deliver was fittingly brutal and vatic: "The doors of world-famous museums will close. In the Russian National Library, the distribution of the books will be stopped. The classes in the St Petersburg academy of the Russian academy of Ballet and theatre will cease," declared Bolshoi director Kirill Lavrov, reading from an open letter addressed to prime minister Victor Chernomyrdin, stating that unless immediate cash were forthcoming from the federal authorities, the black-out could begin next month.

"Even the most fanatical rulers in turbulent periods of revolution and war understood the value of culture. But today they can't," he continued. "We are talking not about international showcases or a reserve of valuable heritage but about one of the world centres of culture, enlightenment, education and science. Lose it once, and it won't be possible to restore it again."

This current crisis was sparked by the announcement last month that federal funds for cultural bodies – including libraries, academies and universities – were to be squeezed once more, this time to the point of strangulation. Funding will henceforth only cover 35 per cent of employee wages, with absolutely no provisions for maintenance or any other expenses. Russia is now spending just a quarter of one per cent of its budget on the arts, many times lower than any western country.

The years since the post-perestroika slump, when the lavish Soviet allocation for the arts between 3 and 4 per cent of the national budget began to evaporate, have had a catastrophic effect upon Russian cultural life. The film industry – Lenin's favourite of all of the propaganda arts – has been completely decimated. Lenfilm, the state studio in St Petersburg which once pumped out 70 films a year, has reduced its output to a single-figure trickle and was forced to rent out one of its lots to a furniture company.

'Even the most fanatical rulers in turbulent periods of revolution and war understood the value of culture. But today they can't'

The collision with market forces has often produced painful, and occasionally tragic, results. In one infamous case, the St Petersburg Ballet on Ice became stranded in Oklahoma City when the sponsorship for an American tour suddenly backed out. They were still pleading with authorities for emergency relief when the Oklahoma bomb exploded outside the city's federal building in April of last year, injuring six of the performers.

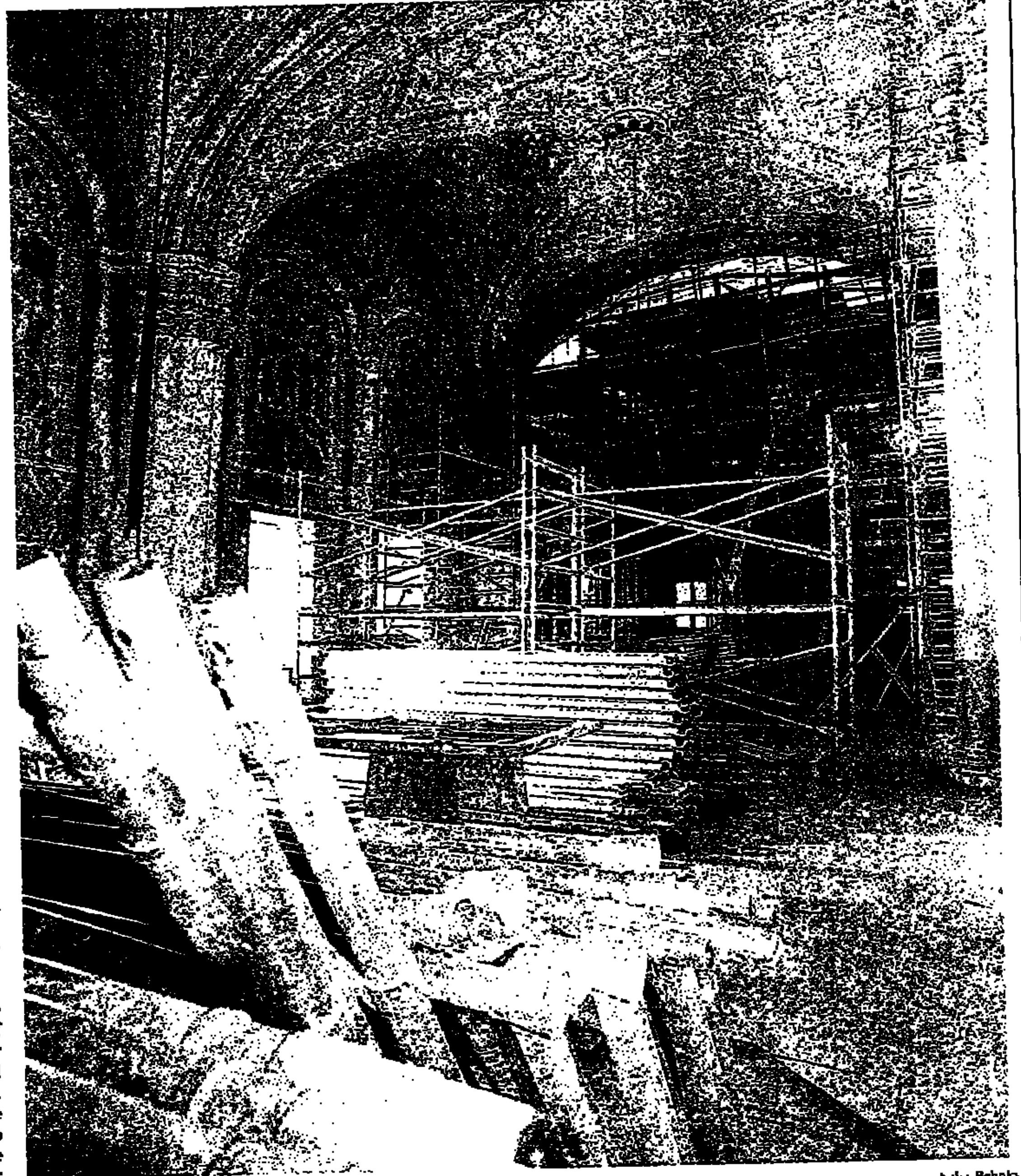
Many of the institutions now facing closure were emblematic of unlikely success in a precarious post-Soviet cultural world. The Russian Museum, whose extensive collection of 19th-century Russian art is located in the magisterial Mikhailovsky palace in the centre of St Petersburg, has embarked on an ambitious programme of restoration which has spectacularly transformed some of the city's most valuable architectural landmarks.

Earlier this year, the Hermitage, one of the greatest art galleries of the world with an unparalleled collection of impressionist and post-impressionist work, unveiled plans "to catch up with the Louvre" via an extensive – and to date, unfunded – $300m development project. But it is the very success of these galleries, Hermitage director Mikhail Piotrovsky suspects, that may have led to their downfall: "Officials see that somehow we are still running. So they must be in good shape and maybe it won't make any difference if we cut a little bit more and a little bit more."

But the latest round of cuts – prompted by the war in Chechnya, the budget-sapping election campaign, the struggle with inflation – have, even by Russian standards, simply gone too far. In their wake, the position of the majority of federally assisted museums, theatres and educational centres, including Moscow's Tretiakov gallery and the capital's Bolshoi Opera along with scores of lesser institutions across this huge country, has become completely untenable.

In his vast tapestry-bedecked office, behind a monstrous oak desk in the Old Hermitage building, Mikhail Piotrovsky is relatively sanguine about his own cultural doomsday scenario: "I'll do everything not to close the museum," he says calmly, "but if we do not get the money for wages and heating, we first of all will close parts of the museum. Then the next stage will be restrict the hours of opening so we use only daylight, as in the 19th century. Then the next is when everything is cut – the heating, the electricity – and we will come to the siege-like situation of the war." At this point, he flashes a characteristic, mischievous grin. "And if everything else fails we must move to the final stage, where the Hermitage can be seen only on the World Wide Web."

The directors of the city's museums feel that they are not only fighting against the government for lofty artistic ideals, but also for the very material existence of their institutions. "It is easy to see the result of this sudden interruption of financing," says Russian Museum director Vladimir Gusev, gesturing to the scaffolding encasing his building. "You just have to look outside the window. We took off all of the stucco from the façade as part of restoration. In the winter, the brickwork of the 18th century will be entirely exposed. Due to the moisture from rain, the building will be destroyed." As in two of the museum's other palaces, where the heating system is suspended in mid-repair, there is a danger that these historic buildings will crumble away.



Restoration of the Russian Museum in the centre of St Petersburg: lack of funding may result in the whole building crumbling away

But Russia's cultural community is less terrified by the short-term crisis than by indications that recent developments mark a radical shift in governmental attitude towards the arts. "It is obvious from recent reactions to our appeals to the government," says Anton Goetman, head of the St Petersburg Philharmonia, "that culture is no longer a thing of any importance or priority. No official could seriously believe that we could survive these cuts. Everything confirms that this is a definite objective to diminish the arts, culture and learning."

Straining to feed its northern regions and pay its disgruntled work force, the government may simply have decided that it can no longer support an artistic infrastructure more in tune with the socialist aspirations of the gargantuan Soviet empire. "The cultural community will just have to learn," Mikhail Schvidkoi, the deputy minister for culture told me, "to live in the same way as miners and soldiers. The financial crisis in the country is very acute and nobody, not those working in the arts, the mines or any other area, should get preferential treatment."

Perhaps it is the novelty of being treated on a par with miners or soldiers that has forced Russia's cultural elite to behave accordingly. The heightened rhetoric, the manifesto presented at the Bolshoi Theatre and the threat of a general culture strike marks an unprecedented and aggressive show of solidarity by the stoic, mostly middle-aged members of this distinctly un-militant section of society.

However, this new stance is driven by a belief that the government must eventually capitulate. If nothing else, the directors hope that commercial principles will prevail – the blows to the country's image, its business activities and its tourist industry of the proposed blackout would be immense. It also seems inconceivable that, having survived the darkest reform days and weathered the blizzard of hyperinflation, the country's museums and theatres will face extinction just as Russia was getting ready to turn the corner.

"This is a country that has just gone through perestroika along with numerous wars," says Vladimir P Yakovlev, chairman of the St Petersburg Committee for Culture, "and our cultural apparatus still kept running. I hope that, having endured so much, we are not going to lose everything now."

Theatre

Survival of the fittest

Survival of the fittest: two new plays from Derby challenge that maxim of modern life. Paines Plough launched its 50th tour in Derby Playhouse's studio theatre with *PoW!*, in which a fighting-fit boxer is KOd by an underworld betting scam, while the main house hosted the world première of John Godber's *Gym and Tonic*, which is set in a health farm which pummels flabby attitudes as much as middle-age spread.

Shirley and Don Weston find themselves out of their social depth at the health hydro. A self-made millionaire, Ken is as aggressive on the squash court as he is in business: "It's a jungle out there! You have to be Tarzan to survive." They are overwhelmed by Gertrude, a wealthy, snobby septuagenarian.

Putting ill-equipped characters out-of-place is familiar Godber territory. We laugh at Don's blushes when he strips down to his underpants for an aromatic massage, and when he has a panic attack during aerobics we recognise that it is symptomatic of his larger mid-life crisis. His problems are exacerbated by the very activities he believes are relieving his stress. Moreover, Don and Shirley have not made love for two years.

Don's vision of his former student self passionately abdicating belief in the future, is tempered by his view that "The Thatcher Years" have destroyed the fight in most of us. When the 1970s are nostalgically evoked, you realise that Godber, who also directs, is theatre's answer to easy-listening music.

Director Penny Ciniewicz uses the menace of jungle music to make an impact with *PoW!*. First-time playwright Aidan Healy has more fight in him than Godber. A boxer foolishly believes he can fix matches, taking a dive in set-up rounds. He fails to do so, but nor does he go on to win. Back in the dressing-room, his whisky-soured trainer, his manager and lover and his girlfriend, all stake their claim on him; but he will not go the distance with any of them and throws in the towel: "I've got my own fight to fight."

Despite the clichés, Healy has a passion and might yet learn to make it crackle. John Godber once learnt it, but seems to have lost it.

Simon Reade

Gym and Tonic plays the Thorndike Theatre, Leatherhead until November 16 (01372-377677). PoW! tours England until December 14 (0171-2404533 for details).

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM
EXHIBITION
Joods Historisch Museum Tel: 31-20-6269945
● Jules Chapon, 50 jaar kunstenaar. Een wereld van bewogen lijnen: retrospective exhibition giving an overview of the work of Jules Chapon from the 1940s to the present; to Dec 8

■ BARCELONA
EXHIBITION
Fundació la Caixa Tel: 34-3-4588907
● Tibetan Sacred Art: this exhibition of about 200 pieces of sculpture and "thangka" (roll-up paintings on fabric used as an aid to meditation) presents a journey through 12 areas which symbolises the different religious spheres with the most representative characters and deities in Tibetan Buddhism. The works are from public and private collections in Europe and the US and span the period from the ninth to the 19th centuries. Following this exhibition the show travels to Japan; to Jan 12

■ BERLIN
CONCERT
Philharmonie & Kammermusiksaal Tel: 49-30-2614383
● Berliner Philharmonischer Orchester: with conductor Kurt Masur and pianist Elisabeth Leonskaja perform Tchaikovsky's Piano Concerto No. 1 in G major and Symphony No. 6 in B minor; 8pm; Nov 1

JAZZ & BLUES
Berliner Festspiele GMBH Tel: 49-30-254890
● Maria Schneider Jazz Orchestra: performance at the Haus der Kulturen der Welt, as part of the Jazz Fest Berlin; 7.30pm; Oct 31

■ BILBAO
EXHIBITION
Museo de Bellas Artes Tel: 34-4-4419536
● Julio González: exhibition focusing on the work of the Spanish artist Julio González (1876-1942) as a draughtsman. Included in the exhibition are 104 drawings by González from the collection of the Museo Nacional Centro de Arte Reina Sofia; to Dec 1

■ BRUSSELS
EXHIBITION
Musée Communal d'Ixelles Tel: 32-2-5119084
● De vertellingen in prent van Rodolphe Töpffer: de geboorte van het stripverhaal: exhibition devoted to the work of the illustrator and author Rodolphe Töpffer whose seven "Histoires en estampes", the first of which was drawn in 1827, are generally considered to be the forerunners of the (comic) strip; to Nov 3

■ CAPE TOWN
CONCERT
City Hall Tel: 27-21-4617084
● Cape Town Symphony Orchestra: with conductor Paul Capolongo, violinist Srdjan Cuca, cellist Leslie Meeks, oboist Sharon Fligner-Lindquist and bassoonist Ingo Holland perform works by Haydn, Fauré and Brahms; 8pm; Oct 31

■ CHICAGO
EXHIBITION
Art Institute of Chicago Tel: 1-312-4433600
● Edgar Degas: Passing on the Tradition: this exhibition accompanying the exhibition "Degas: Beyond Impressionism" features about 130 works on paper from the museum's collection. The exhibition aims to elucidate both Degas' sources and his influence on subsequent generations of artists. The exhibition reviews the work of the many artists he admired, copied and collected, including Rembrandt, Ingres, Delacroix, Daumier, Van Gogh and Gauguin. In addition, works are presented by those immediate successors, like Toulouse-Lautrec, Rouault and Picasso, who acknowledged, in word or deed, their debt to him; to Jan 26

■ DUBLIN
CONCERT
National Concert Hall – Ceoláras Náisiúnta Tel: 353-1-6711888
● RTE Concert Orchestra: with conductor Mark Shanahan, soprano Barbara Kilduff, counter tenor Nicholas Clapton, baritone Karl Daymond, the Tallaght Choral Society, the Dublin County Choir, the Tallaght Boys' Choir and the National Chamber Choir perform works by Orff, Verdi, Humperdinck and Mussorgsky; 1.05pm; Nov 1

■ LONDON
CONCERT
Barbican Hall Tel: 44-171-6384141
● London Symphony Orchestra: with conductor Riccardo Chailly, soprano Katarina Dalayman, tenor Wolfgang Schmidt and bass Gudjon Oskarsson perform works by Schoenberg and Wagner; 7.30pm; Oct 31
Royal Festival Hall Tel: 44-171-9604242
● Philharmonia Orchestra: with conductor Leonard Slatkin and pianist Stephen Kovacevich perform works by Beethoven, Mozart and Elgar; 7.30pm; Oct 31

■ MADRID
EXHIBITION
Biblioteca Nacional Tel: 34-1-5807800
● Ydioma Universal: exhibition focusing on Francisco de Goya's graphic work. The display features not only works by the Spanish artist himself, but also works by contemporary artists and old masters, including Ceán Bermúdez, Dürer, Carraci, Piranesi, Rembrandt, Rubens, Van Dyck and Tiepolo. The exhibition features more than 300 works, including prints, sketches, drawings, books and manuscripts; to Dec 19

■ NEW YORK
CONCERT
Alice Tully Hall Tel: 1-212-875-5050
● Finnish Chamber Orchestra: with conductor Jukka-Pekka Saraste and pianist Olli Mustonen perform works by Sibelius, Beethoven and Mozart; 8pm; Oct 30

■ PARIS
EXHIBITION
Musée Auguste Rodin Tel: 33-1 47 05 01 34
● Rodin – Les Marbres de la Collection Thyssen: this exhibition features six marble sculptures by Auguste Rodin, commissioned by August Thyssen (1842-1926) in 1905 and 1908; to Jan 5
Musée Carnavalet Tel: 33-1 42 72 21 13
● Frank Horvat: Paris-London: this exhibition features 110 black-and-white photographs taken by Frank Horvat during the 1950s and 1960s; from Oct 30 to Feb 23

■ SAN FRANCISCO
CONCERT
Louise M. Davies Symphony Hall Tel: 1-415-864-6000
● San Francisco Symphony: with conductor Michael Tilson Thomas and pianists Katia and Marielle Labèque perform works by Berio, Copland and Debussy; 2pm; Oct 31

■ VIENNA
OPERA
Wiener Staatsoper Tel: 43-1-514442960
● Stiffelio: by Verdi. Conducted by Fabio Luisi, performed by the Wiener Staatsoper. Soloists include José Carreras, Mara Zampieri and Marjorie Vance; 7.30pm; Oct 30

■ WARSAW
OPERA
Teatr Narodowy-National Theatre Tel: 48-22-263289
● The Haunted Manor: by Moniuszko. Conducted by Tadeusz Wojciechowski, performed by the Polish National Opera. Soloists include Zbigniew Macias, Dorota Radomska and Katarzyna Suska; 7pm; Oct 29

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European Money Wheel
Nonstop live coverage until 15.00 of European business and the financial markets

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Financial Times Business Tonight

CNBC:

08.30
Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight

COMMENT & ANALYSIS

Michael Prowse • America

Politics of gender

The big challenge facing conservative Republicans is to win back the support of women voters

If President Bill Clinton wins a second term, he will owe a debt to women. Among male voters, the presidential race is close in many states. Mr Clinton typically leading by only a few percentage points. But among women, there seems to be no contest: Mr Bob Dole, the Republican challenger, is trailing by 20 points or more.

Why does Mr Clinton appeal so much more to women than men? The personalities of the two candidates play a role. Mr Clinton is more telegenic and emotional. He has cleverly exploited his almost feminine capacity to empathise with voters. And, contrary to what one might expect, opinion surveys show women are more willing than men to trust him: they seems less worried by his alleged character failings.

Mr Dole, by contrast, epitomises an uptight, old-fashioned type of masculinity. His toughness seems to repel female voters. Being as old as many of their grandparents, he perhaps reminds them of a bygone era when women were confined to the home and discriminated against in the workplace. And he undoubtedly suffers because of his association with Mr Newt Gingrich – the fiery Speaker of the House. Mr Gingrich's negative ratings among women have set new records for pollsters.

But the Republicans' inability to connect with female voters has deeper roots. The 1976 contest between Jimmy Carter and Gerald Ford was the last in which men and women voted evenly for a president. In 1980 Ronald Reagan, the victorious Republican challenger, attracted 55 per cent of the male vote compared with 36 per cent for Jimmy Carter; but women split almost equally, with 45 per cent favouring Carter and 47 per cent Reagan.

The "gender gap" now seems permanent. In 1988, men favoured George Bush over Michael Dukakis, the unsuccessful Democratic candidate, by a margin of 19 points; the female vote was again almost evenly split. And in 1992, Mr Clinton's margin of victory among women was three times as great as that among men.

The simplest explanation of this gap is that women are more likely to oppose the social and economic policies associated with the Republican party since its conservative tilt in the late 1970s (the ideological differences between Carter and Ford were minimal). Opinion polls consistently show that women are less keen on tax cuts than men and more opposed to reductions in government spending.

They put a greater priority than men on education, healthcare and the environment. They support "affirmative action" programmes to help racial and ethnic minorities, whereas men, by a small margin, would abolish them. Surprisingly, perhaps, abortion is not an important issue in explaining the Democrats' comparative advantage among female voters: the percentage of men and women on each side of this debate is roughly equal.

But why are women more inclined than men to support "welfare state" policies? Part of the answer is that women's roles give them a more direct interest in issues championed by Democrats. Women more often assume the burden of caring for the old and young, and thus are more likely than men to feel threatened by alleged "cuts" in healthcare or education.

They are also more likely to be the direct beneficiaries of public spending. Most welfare recipients in the US are single mothers. Because they live longer than men, they also tend to have a bigger stake in government programmes for the elderly, such as Medicare, the health scheme, and Social Security, the pension plan.

Probing deeper, women are probably more inclined to support the party with a "caring" image because they feel more vulnerable than men. The liberation movement has greatly extended their responsibilities: they are now expected to hold down full-time jobs while bearing the main burden of raising children and managing a home.

Mr Clinton seems more sympathetic than Mr Dole to the dilemmas posed by this dual responsibility: for example, he pushed through legislation to protect the jobs of parents obliged to take leave because of family crises.

In the longer term, the crucial question for Republicans is whether the gender gap can be bridged without adopting "social democratic" policies. Does the growing political influence of women – and their increasing willingness to vote differently to their spouses – spell doom for purveyors of libertarian and conservative doctrines? Is minimal government and the free market a lost cause among women? Are they instinctively less individualistic than men?

The answer, I hope, is no. The powerful economic – and ethical – arguments for libertarian policies should appeal just as much to women as men. But the language in which these ideas are discussed perhaps has to become softer and more persuasive. It would help, for example, if the free market was depicted fairly, as the pre-eminent form of social co-operation, rather than caricatured as a Darwinian struggle for survival. There is nothing inherently more co-operative than the market – a mutually beneficial network of voluntary transactions among people.

The Democratic myth that you lack compassion if you oppose increases in government spending should also be gently countered. Men or women can claim to be caring if they voluntarily give their own money to help the disadvantaged. The same moral merit cannot be claimed by those who merely demand that others be taxed to pay for the projects they desire. If American conservatives argued their case more adroitly, they just might win back more women voters.

The gender gap in US politics

Party identification	Republican	Independent	Democrat
Male	36%	31%	30%
Female	28%	25%	43%
Opinion of Bill Clinton	**Favourable**	**Not favourable**	
Male	44%	36%	
Female	48%	29%	
	Favourable	**Not favourable**	
Male	37%	29%	
Female	23%	42%	
How they voted in the [illegible]			
1984	Reagan	Mondale	
Male	62%	37%	
Female	56%	44%	
1988	Bush	Dukakis	
Male	57%	41%	
Female	50%	49%	
1992	Clinton	Bush	Perot
Male	41%	38%	21%
Female	46%	37%	17%

Sources: New York Times/CBS News

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to ... (set fax to 'fine') email: letters.editor@ft.com Published letters are also available ... Translation may be available for letters written in the main international languages.

Population control as important a priority as food production

From Mr Carl Wahren.

Sir, Alison Maitland's useful review of the current population/food debate ("The wheat from the chaff", October 17) focuses attention exclusively on the supply side. The underlying assumption seems to be that nothing can be done about the staggering future increases in world food demand, which are linked to continued rapid population growth as well as changing consumption patterns in developing countries. Luckily, this is not correct.

It is obvious that meeting the demands of the billion or more people who suffer from hunger and malnutrition will require significant improvements in all aspects of food production. But when it comes to the actual numbers of people to be fed in the next century, much can – and should – be done.

Family planning information and services are estimated as having prevented some 500m to 600m unwanted births in the developing world already. Contraceptive practice has increased fivefold in only three decades. Still, the United Nations and recent world conferences have repeatedly reminded us that some 350m couples worldwide, many of whom would like to prevent another pregnancy, lack the means. During the 1990s the number of couples of reproductive age will grow by about 18m per annum.

Investing in education, especially for girls, and reproductive health services, including family planning, are highly cost-effective, but not high cost. As a bonus, these investments will also modify the rapidly increasing need for food and water over time.

The time penalty for overlooking the demand side in the population/food equation is simply awesome. Why gamble?

Carl Wahren,
5, Square de l'Avenue du Bois,
75116 Paris, France

Economics devoid of democracy

From Mr Llew Smith MP.

Sir, In all the responses you published (October 17) to your editorial "New money for Europe" (October 14) no one seriously addressed the point made on "the relationship between the banks and politicians".

The Maastricht treaty states: "The Community institutions . . . and governments of member states undertake . . . not to seek to influence the members of the decision-making bodies of the European Central Bank . . . in the performance of its task."

This means that virtually all the main economic decisions will be taken by unelected and unaccountable bankers and not democratically elected politicians. Indeed, the ultimate insult to our democracy is that those democratically elected politicians will be acting illegally even if they try to influence those unelected bankers on issues such as poverty, unemployment and homelessness.

Anyone who values the vote and our democratic system of government cannot allow this to happen. It helps explain one of the principal reasons why we must oppose a single currency.

Llew Smith,
House of Commons,
London SW1A 0AA, UK

Cotton industry at risk from dumping

From Mr J.A. Oliveira.

Sir, I refer to Jenny Luesby's article, "EU rethink on cotton import duties" (October 10), regarding the anti-dumping proceedings on imports of unbleached cotton fabrics originating in Egypt, China, India, Indonesia, Pakistan and Turkey.

Eurocoton's complaint is supported by producers of more than 70 per cent of the European production of cotton fabrics and not only by France and Italy. The European production of unbleached cotton fabrics is well above that mentioned in the article which corresponds to production sold on the free market.

The European Commission has not opened a second investigation: the initial investigation is being carried on and will be pursued even after the adoption of provisional duties.

The EU member states' positions, as described, are fanciful. We cannot see any government saying in advance that it will oppose the duties irrespective of the final outcome of the investigation. The final decision is to be made by the EU Council of Ministers.

Should anti-dumping duties not be imposed, then the injury suffered by the cotton textile industry would get increasingly worse. Not only would the weavers, which sell the product in grey state, be hit but [illegible] also would those which sell dyed and printed fabrics, since they have to face the competition of finished fabrics obtained from low-cost imported greys. About 150,000 jobs are threatened in European weaving.

The big volume of imported fabrics has damaged the cotton spinning sector as well in terms of reduced sales to the weaving industry and a fall in prices. Some 70,000 jobs are threatened in European spinning. In addition, the downstream cotton industry (household and garments) depends on the viability of European weaving for a significant part of its raw material supply.

For the EU to renounce sanctions on unfair trade practices would amount to encouraging fraudulent predators.

J.A. Oliveira,
president, Eurocoton,
24 rue Montoyer,
1000 Brussels, Belgium

Impression of auditors amazing

From Mr Donald A. Main.

Sir, In your article "Company report changes urged" (October 24) you quote a leading partner of one of the very large accounting firms as saying: "We are all shedding clients which we judge as of too high a risk to the firm." Apparently this comment was a response to a concern that auditing failures of the past could re-emerge.

As a former member of the Accounting Standards Board and as a small investor, I am amazed and concerned that a leading professional accountant should convey the impression of walking away from difficulties rather than facing up to them. Is that ethical?

For the sake of the profession, I hope that the impression conveyed in your article is incorrect.

Donald Main,
Mahogany Hall,
The Common,
Chipperfield,
Herts WD4 9BX, UK

Linguistic exactitude

From Mr Terence Feely.

Sir, I much enjoyed James Morgan's hoax when he pretended to prefer "the structure was subject to intense incendiary activity but firefighters gained an entry and safely evacuated the residents" to "the place was ablaze but the firemen went in and got everyone out" as an example of good English ("The curious role of the English language", October 19/20).

Just a word of warning, though: many more young people read the FT than he might think. He's gained credibility with them by his lively coverage of European attitudes. It would be regrettable if he corroded their appreciation of simple English. If it wasn't a joke and he was serious then there's obviously a serious downside to being a polyglot.

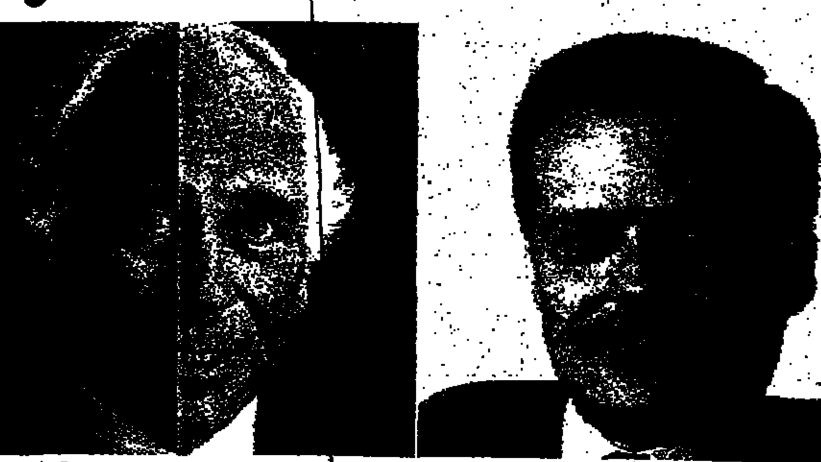
Terence Feely,
The Garrick Club,
Garrick Street,
London WC2E 9AY, UK

John Gapper on Rothschild's attempt to answer its doubters

Dynasty's new direction

"It requires a great deal of boldness, and a great deal of caution, to make a great fortune; and when you have got it, it requires 10 times as much wit to keep it." So said Nathan Mayer Rothschild, the leading figure of the Rothschild banking dynasty, at a dinner party in 1834*.

His remark came 20 years after the Rothschilds made £1m from dealing in bullion in the Napoleonic wars. Some 150 years later, the family's share capital employed in banking has grown to SFr962m ($760m), but the challenge of building on that fortune remains as tough as ever.



Family values: Sir Evelyn de Rothschild (left) and his most likely successor, Baron David

The disclosure that $760m is the equity committed to Rothschild Continuation Holdings, the family's Swiss holding company, is part of a broad effort to demonstrate to a sceptical world that Rothschild remains a banking house of undoubted solidity, as well as being suitably managed.

"You do not have to be huge. I believe that if you are efficient and well managed, you can achieve the same ends," says Sir Evelyn de Rothschild, chairman of Rothschild Continuation and N.M. Rothschild & Sons, its London bank.

Yet Sir Evelyn, the dominant force in the family over the past two decades, faces hard questions about the future of his venerable banking house. The share capital of Rothschild Continuation – 25 per cent of which is held by outside investors – is impressive in terms of private wealth, but is dwarfed by the resources available to many of its competitors.

Furthermore, the family is often accused of running its investment banking operations in an antiquated manner. Sir Evelyn is regarded as an overly dominant figure within the London bank, while the other parts of the empire have operated more as a federation of businesses than a single force.

Quite apart from such doubts, it has been an unhappy year for the Rothschilds. The sudden death of Amschel Rothschild, head of its asset management operations, led to further public scrutiny of the family and of the issue of who will succeed Sir Evelyn when he finally steps down.

In recent months, Sir Evelyn, 65, has been making changes intended to answer the doubters. As part of these, Baron David de Rothschild, Sir Evelyn's 54-year-old cousin, who rebuilt Banque Rothschild in Paris in the early 1980s after bank nationalisation, has emerged as his most likely successor.

The latest changes came last Friday, when Sir Evelyn announced that the Rothschild bullion business in Australia will be combined with London treasury operations. It will use the capital of N.M. Rothschild in the UK and Australia, and have the ultimate backing of Rothschild Continuation.

The group will eventually have five divisions, managed as a global business. These include investment banking, Rothschild's best known activity apart from gold trading. It has a particular niche in advising on privatisations and is advising Deutsche Telekom on its $10bn public offering.

Such changes are plainly something of a wrench for Sir Evelyn, who says that organising businesses from the centre is a US trait. "Americans are centralists, and we Europeans are the other way. Our culture is not centralist, but the market has moved and we must respond," he says.

Baron David, who chairs the London-based investment banking committee in charge of advisory work, says: "Any static organisation is wrong, and has to be moved forward. There is always a balance between control by product and by geography. We want a harmonious mixture."

Baron David appears to be relishing his enhanced role in London, where he is deputy chairman of N.M. Rothschild. "Evelyn has an enormous workload and big management responsibility, and he thought I could help to push things forward. It is interesting to be involved, and I love it," he says.

Baron David says family links help to make things run smoothly. "It is better to work together rather than fight. It's amusing for people to look for feuds, but there are none.

"I do not know who Evelyn's successor will be. I hope he stays a long time, because he is doing a big job, and we do not need a power play. To make a success, we must work quite hard together. In due course, we will see what happens," he says with a smile.

The collapse of Barings and the sale of the weakened S.G. Warburg Group to Swiss Bank Corporation last year have raised the stakes for family-owned merchant banks. But Baron David says this has its positive side: "As there become fewer of our species, I think our chances increase. It is the difference between having a dedicated doctor or going to the hospital. The hospital may have absolutely first-class equipment, but you often want something different, a more personal touch."

Given the balance sheet of Rothschild Continuation, and the healthy profits of N.M. Rothschild, there is little danger of Nathan Mayer Rothschild's fortune being squandered. But Sir Evelyn and Baron David will require a great deal of boldness to construct a truly global investment bank.

"The City of London: A World of Its Own", by David Kynaston, Chatto & Windus

COMMENT & ANALYSIS

FINANCIAL TIMES
Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700
Monday October 28 1996

How to help Russia

Two worrying and related developments have dominated the news from Moscow over the past week. One is the fact that efforts by the International Monetary Fund to co-manage Russia's economic recovery have run into difficulty. The IMF is expected to suspend payment of the latest tranche of its $10.2bn credit because of the government's failure to collect taxes, and its slowness in opening the bond market to foreigners.

The other development is the warning from Russia's defence chiefs of "uncontrollable developments" in the military because of a funding crisis. While they are capable of crying wolf to extract extra funding, the latest crisis seems the most severe since the Soviet collapse.

This might, therefore, seem a bad moment for the IMF to be tightening the screws on Russia. While the further rationalisation of Russia's economy is enormously desirable, the safe control of its still vast arsenal is surely even more important.

In fact, however, both the tax collection problems cited by the IMF and the looming disintegration of the military are symptoms of a single problem that Russia needs to tackle quickly, with or without western prompting. The problem is an extreme lack of transparency in the way money is collected and disbursed by the Russian state. Instead of raising revenue fairly and consistently, the government has created a web of tax privileges for its friends.

Expenditure, particularly military spending, presents an equally murky picture. The finance ministry complains that it has no idea where much of the notional military budget goes. The spectacle of generals with vast, opulent homes, while conscripts lead a nightmarish life of brutality and malnutrition, prompts many observers to suspect the worst.

The IMF will do nothing for the governance of Russia, or its its own credibility, by throwing more money at either of these problems. It is entirely justified in holding back the latest tranche of its loan.

On the other hand, problems in the Russian armed forces may have reached the point where some well-targeted western aid is needed to assist military rationalisation and avoid a dangerous breakdown. The successful Nunn-Lugar programme for dismantling nuclear weapons has demonstrated the usefulness of helping the ex-Soviet military to streamline itself. But if any more aid is given, it should part of a clearly identifiable and strictly conditional credit line, separate from the IMF's economic recovery plan. If the west is urging transparency on Russia, it needs to exhibit clear thinking too.

Internet pricing

The Internet, having survived the allegation that it is a haunt of pornographers, now faces the accusation that it is bringing the Californian telephone system to its knees. Pacific Bell, the local phone company, says 16 of its switching centres are experiencing problems of congestion caused by heavy Internet use. As Internet use expands, the problem will get worse. A "data tsunami", or tidal wave, is on its way, says Pacific Bell's parent company.

There is a specific issue here related to the fact that US phone companies mostly do not charge for local calls. This is popular with customers, but relies on the fact that the average voice call lasts four minutes. Internet sessions – which for many users start off over the local phone network – average 20 minutes. Some users stay connected to the Internet for hours at a time.

The obvious answer is to impose a small per-minute charge, either for local calls or for Internet connections. Such a move will be unpopular, and Pacific Bell's doom-mongering is no doubt partly intended to soften up telecoms regulators and public opinion.

More broadly, however, the issue reflects big changes in the economics of telecommunications over the past decade. Traditionally, providing local calling capacity was cheap, and building long-distance or international links was expensive.

Now, thanks to fibre-optics, micro-waves and satellites, the world is awash with long-distance capacity, but the cost of providing local access is unchanged. Yet in most markets long-distance calls are expensive and local ones are cheap – sometimes, as in the US, free.

The tensions this creates are vividly illustrated by the Internet – not merely in the case of Californian web-users, but also by the growth of "Internet telephony". This is not so much a technological breakthrough as a way of arbitraging between the flat-rate pricing of Internet access and the historically high charges for international phone calls.

The explosion in Internet use is not, whatever frightened phone companies may say, a threat to the world telecoms infrastructure. Like other innovations, however, it is a threat to traditional telecoms pricing. Until the industry's charging structure is overhauled, it risks sending the wrong signals to users and suppliers. Such errors in signalling can create apparent shortages of capacity or – just as bad but less noticeable – artificial underuse of abundant resources. The challenge the Internet poses to the telecoms industry and its regulators lies in economics, not technology.

UK economy

If the miseries of unemployment could be cured by adding a few drops of inflationary finance to the economic engine, who would refuse the remedy? The question has been asked many times in the UK since the second world war, with Tories applying the lubricant as much as Labour.

Mr Kenneth Clarke, the present chancellor, is unlikely to imitate Reginald Maudling's blatantly electioneering Budget of 1963, nor Anthony Barber's mad borrowing spree of a decade later (when unemployment was less than half its present level). But will he avoid the mistakes of the late 1980s, made by Nigel Lawson, a chancellor bedecked with medals from earlier campaigns against rising prices?

Ten years ago, inflation was subdued at 3 per cent (compared with 2.9 per cent now, excluding mortgage interest). Unemployment, although dreadfully high at more than 3.2m (1.1m above the present figure), was starting to come down. Manufacturing output had still not recovered to its level at the end of the 1970s, but, as now, was moving in the right direction.

It was at that point that the then Mr Lawson started to make a series of mistakes from which the economy is only now shaking itself free. His over-expansion brought inflation, recession, rising deficits and debt. Yet the increase of public spending in autumn 1986, when monetary policy began to ease, was welcomed by many. Inflation, they thought, had been tamed.

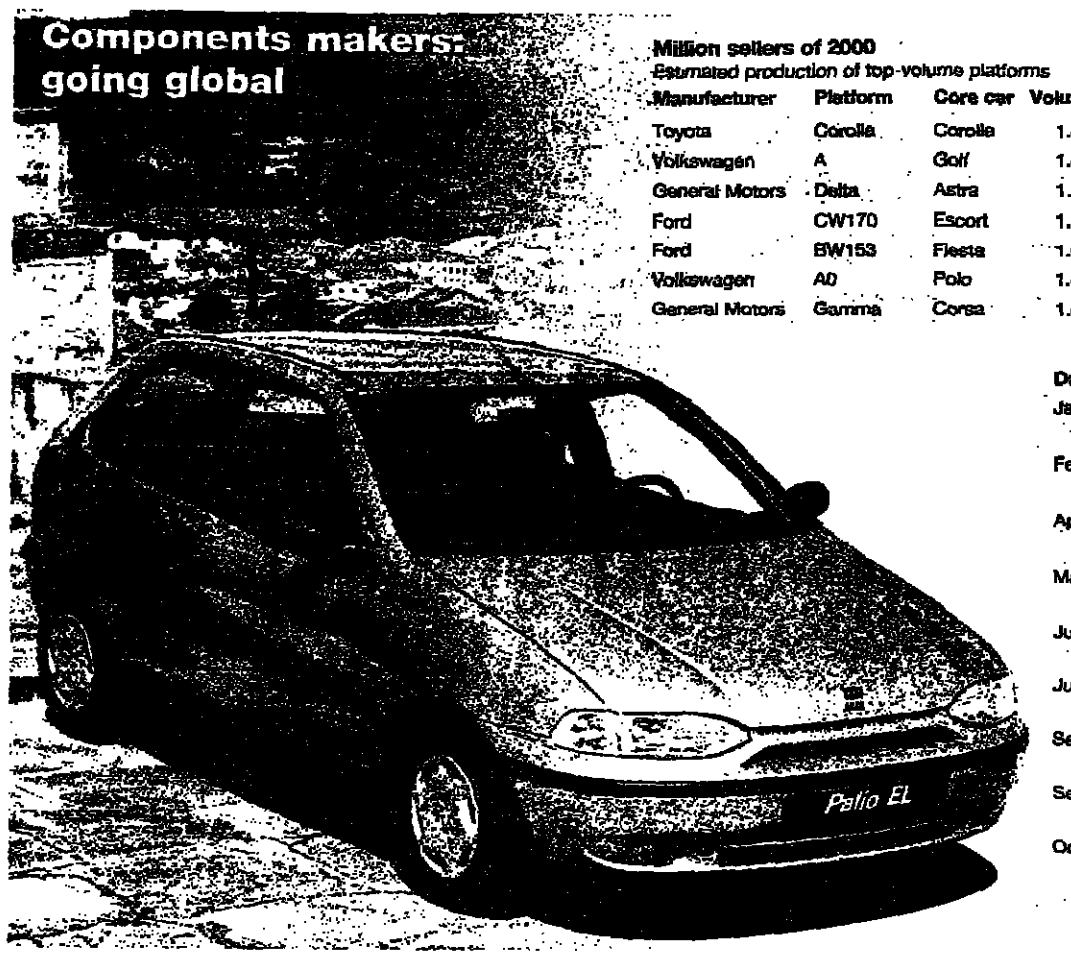
Now, once again inflation seems subdued; once again an election is looming; and once more a Tory chancellor is under political pressure to permit a "prudent" easing of policy.

There is one lesson from history: any slackening now would be liable to take effect at the wrong moment. Next year most forecasters, including the Treasury's, expect the economy to be picking up speed – with annual growth of perhaps 3½ per cent or more. This is exactly when it will not need an extra push. The second lesson is that even with 2m unemployed, an economy with too much momentum can trip up, sprawling into inflation.

Wage costs are now under better control than in the mid-1980s, when average earnings were rising at about 7.5 per cent a year, almost twice the present rate. Consumer spending is buoyant, manufacturers predict a recovery from lean times, and gross domestic product growth is accelerating. Good news. But it carries warning signs: surveys suggest people are losing the fear of the dole, while skills shortages are appearing in the Midlands. Unit labour costs are rising at an annual rate of 5 per cent. House price inflation has picked up sharply to about 6½ per cent in the south...

Watch out, Mr Clarke. The UK may have been here before.

Components makers: going global



Million sellers of 2000
Estimated production of top-volume platforms

Manufacturer	Platform	Core car	Volume
Toyota	Corolla	Corolla	1.4m
Volkswagen	A	Golf	1.4m
General Motors	Delta	Astra	1.3m
Ford	CW170	Escort	1.1m
Ford	BW153	Fiesta	1.0m
Volkswagen	A0	Polo	1.0m
General Motors	Gamma	Corsa	1.0m

Top five platforms, 1995
Production in major markets

Company	Platform	Europe	US	Japan	Total
Toyota	Corolla/Prizm	0	319,529	660,000	979,529
Volkswagen	Golf/Jetta	731,087	115,602	0	846,689
Ford	F-series	0	771,513	0	771,513
General Motors	C/K	0	713,827	0	713,827
Fiat	Punto	666,705	0	0	666,705

Putting together the pieces
the main international deals of 1996

Date	Transaction	Value ($bn)
January	Tomkins (UK industrial group) buys Gates Rubber of the US (transmission belts and hoses)	1.26
February	Bosch (German electronics) buys Bendix (hydraulic brake) subsidiary of Allied Signal of the US	1.5
April & July	Breed Technologies (US components maker) buys Momo (steering wheels) and Gallino Plasturgia (plastics) of Italy	N/A & 0.125
May	Lucas (UK auto and aerospace parts) and Varity (US industrial group) merge	4.8
July	Tenneco Automotive (US suspension and exhaust systems) buys Pullman (US engine mounts)	0.3
July	Johnson Controls (US seating and interiors) buys Prince Automotive (US interiors)	1.35
September	Magna (Canada pressings and seating) buys Douglas & Lomason (US seating)	0.135
September	Dana (US body parts) buys Sealed Power (engine parts) division of SPX group (US components maker)	0.235
October	Autoliv (Swedish airbag maker) to merge with Morton group's Automotive Safety Products seatbelts and airbags subsidiary (US components)	4.0

Sources: Automotive News, FT

Star parts for bit players

Carmakers are driving components companies towards a consolidation of the global market, writes Haig Simonian

Every Friday, at precisely 7am Detroit time, the top purchasing managers of General Motors, the world's biggest car company, pick up their telephones for a two-hour conference call. The discussion is scheduled to unite executives in the five continents where they work without disturbing their sleep.

On the agenda are the group's plans for future cars and trucks, and what these may require in the way of such important parts as tyres, brakes and airbags.

Such a call would have been inconceivable a few years ago. Until the 1990s, even such multinational carmakers as GM operated through separate regional divisions or subsidiaries. Each built different models, depending on its market. Today, leading carmakers plan new vehicles on a global basis. Production runs for some popular cars will easily exceed 1m units a year – double present volumes.

Higher volumes and greater standardisation have triggered an upheaval among components suppliers. In the biggest change in its history, the once-diversified components business is being rationalised as large specialists gobble up the minnows. "The number of suppliers for many key parts will be whittled down to two players, maybe three," says Mr Richard Snell, chief executive of Tenneco Automotive, a leading US components group.

GM's globe-spanning telephone call highlights the two fundamental trends shaping the process. As economic growth spurs car ownership in new markets, carmakers are building factories from Botswana to Brazil. But rather than designing different models for each region, they are standardising around "world cars", such as Ford's Mondeo (known as the Ford Contour and Mercury Mystique in the US), to contain spiralling development costs.

While internationalising production and exploiting economies of scale, carmakers are trying to cut the costs of future vehicles by buying more components from outside sources. Both developments are having a profound effect on the components industry, which depends largely on the vehicle makers for its livelihood.

"Globalisation is forcing people to act," says Sir Colin Hope, chairman of T&N, the UK components group.

The changes are being dictated by multinational vehicle makers. GM alone spends about $70bn (£44bn) a year on parts, says Mr Tom Fabus, head of its US vehicle purchasing operation. Mr John Devine, Ford's chief financial officer, says: "You go from making a product that's around 400,000-500,000 units to a product that's 1.5m. There's an enormous cost-saving there on parts."

Many new car and truck plants are in regions such as eastern Europe or China where the local components industry is in its infancy. To ensure reliable and prompt supplies, carmakers are inviting their components suppliers in more advanced economies to follow them into new markets.

The reward for suppliers is not only new business but also the prize of becoming the exclusive worldwide source for a crucial component on a new, possibly global, car. Volumes can be very large. Fiat expects to build about 1m a year of its new Palio model when production peaks. Ford made almost 650,000 of the Mondeo/Countour/Mystique at its European, US and Mexican plants last year. Output of its smaller Fiesta, manufactured in Europe and Brazil, and soon in India, should exceed 900,000 units a year by the end of the century.

The changes in the industry have created the opportunity for components companies to make a wider range of parts and for the vehicle makers to turn to their suppliers for items they once made themselves. The main reason for outsourcing is cost. Pay in the components industry is often considerably below that in car plants, meaning component makers can produce more cheaply than a car company.

Such cost advantages are often multiplied by the fact that big components specialists supply more than one carmaker, giving them greater economies of scale than those available even to a mammoth such as GM.

Carmakers' enthusiasm for outsourcing lay at the heart of the recent dispute between GM and the Canadian Auto Workers union, which also affected GM's US plants. Although the agreements being negotiated between the big three US carmakers and the United Auto Workers union of the US may slow the trend towards outsourcing, details remain sketchy and it is unlikely that the move will be reversed.

In some cases, car companies have even sold components factories to parts specialists in return for long-term exclusive supply contracts. GKN, the UK maker of constant velocity joints, is now Fiat's exclusive supplier of such joints in Italy and Poland. TRW, the US auto components and aerospace group, has done the same with Fiat and Renault for steering gear and valves.

Outsourcing can offer carmakers more than lower prices. It can release precious working capital – otherwise tied up in a low-margin business – for more profitable investment in their core activities. Research and development costs are also borne by components companies. Together, globalisation and outsourcing have triggered a wave of mergers and takeovers in the components industry as suppliers react to the vehicle makers' needs for lower prices and global sourcing.

This year has brought five $1bn-plus takeovers, while the total value of big transactions announced since January is nearly $15bn (see table).

Further consolidation appears inevitable, according to Mr George Simpson, until last month chief executive of Lucas, the UK components company. He expects the number of leading components companies to shrink to 15-20 global groups over the next decade, compared with about 10 times that number today.

Mr Simpson, now chief executive of General Electric Company, the UK engineering and defence group, should know. His former employer recently completed this year's largest merger – a $4.9bn marriage with Varity, the big US components and engines group. LucasVarity will be one of world's top three suppliers of braking systems.

Acquisitions and big mergers are expected to accelerate as other companies with global ambitions sweep up smaller regional components makers.

US components companies have been among the most aggressive acquirers internationally. Mr Woody Morcott, chairman of Dana, a big US body components group, expects foreign sales to reach 50 per cent of turnover in 2000 against 31 per cent in 1994.

In certain products, the biggest rationalisations have already taken place. Car seats have now been concentrated among three producers – Johnson Controls and Lear of the US and Canada's Magna; the braking business is dominated by Bosch, LucasVarity and ITT of the US; Arvin and Tenneco Automotive account for the bulk of exhaust systems and shock absorbers; Autoliv and Morton will dominate airbags and seatbelts.

Yet consolidation is still resisted, especially in Europe. French carmakers reacted angrily to signals from Mr Carlo De Benedetti that Cerus, his French holding company, was prepared to sell its 28 per cent stake in Valéo, the French-based lighting and parts group. Mr Jacques Calvet, chairman of Peugeot-Citroën, and Mr Louis Schweitzer, the Renault chairman, came out against Valéo falling prey to a US counterpart. The stake looks set to be sold to Compagnie Générale d'Industrie et de Participation, a friendly French holding company.

Another arranged marriage took place this month to ensure Bertrand Faure, a French seating and interiors company, remained in national hands after a Peugeot-Citroën subsidiary bought a majority stake in the holding company that indirectly controls the group.

Such hostility partly reflects carmakers' fundamental worry over consolidation. While their search for economies of scale has led them to promote rationalisation among suppliers, the process will inevitably make them more dependent on their suppliers.

Mr John Waraniak, co-author of a report on suppliers by A.T. Kearney, the management consultants, and the University of Michigan, confirms components companies and carmakers are becoming more interdependent. Instead of inviting suppliers to annual bidding contests, vehicle makers are forging longer-term bonds with suppliers by global supply deals and outsourcing, says the report. That means the carmakers are helping to create companies that will be more equal partners than the smaller, regionally based manufacturers they dominated in the past.

Already many of the new vehicle plants being built around the world envisage much closer interdependence, with large parts of the shopfloor run by components companies. The vehicle makers will remain in charge, but the balance is shifting towards their suppliers.

· OBSERVER ·

Full Borer response

■ Switzerland has gone on a war footing. After suffering weeks of allegations over shady dealings with Nazi Germany, the country is preparing the counter-attack. Thomas Borer, 39, a little-known diplomat, has been given the job of repairing the country's battered international reputation following a long-running bombardment of accusations and half truths from Alfonse D'Amato, chairman of the US senate banking committee.

The senator may be a loose cannon domestically, but he is proving to be a formidable enemy for the Swiss – who have mostly responded by setting up yet more committees. Last week, two new government taskforces emerged, with mandates that seemingly overlap with the independent panel of experts already being formed.

The Swiss excuse is that the taskforces are needed to deflect enemy fire in the short term, while the yet-to-be-named expert panel studies the issue in peace.

It is now Borer's job to get things moving. A lawyer who has shaken up the internal management of the foreign service, he was also in charge of sorting out the delicate problem of the Swiss ambassador to Romania who fell in love with an alleged spy.

If he succeeds as his country's answer to D'Amato, then he can look forward to an ambassadorship himself. If not, he could be destined to follow his Romanian connection into oblivion.

Lage no lout

■ Canadian ministers and bankers involved in this week's visit by Cuban vice-president Carlos Lage will be meeting the island's leading economic reformer in what is the highest official contact between the two nations for 20 years. They may well also wonder if they are talking to 70-year-old president Fidel Castro's successor.

Lage, 44, is one of the younger, reform-minded Cuban technocrats who have come into the limelight since the collapse of the Soviet Union forced Cuba to seek stronger trade and investment ties with the west. A former leader of the Young Communists' Union, Lage was promoted to the ruling Communist party politburo in 1990 and became vice-president in 1993.

Having started out as a paediatrician, it is now his job to administer carefully measured – and diluted – doses of market-style reforms to a nation still marked by Soviet-style command economics.

By way of contrast with the Castro bombast and love of military uniforms, Lage is quiet, self-effacing and most at home in jeans. Despite his growing authority in matters economic, he still clearly defers to the patriarch, who continues to rant against "capitalism".

At the same time, he impresses foreigners with his straight-talking, down-to-earth manner. Some even say he is a Cuban leader with whom the Americans could work.

Looks good

■ Norway's new premier Thorbjörn Jagland will have to work hard if he is to emerge from the shadow of his bustling predecessor, Gro Harlem Brundtland.

But there is nothing remotely grey about finance minister Jens Stoltenberg, a dashing fellow of just 37 years who has been rising swiftly through Labour's ranks since he started on the party newspaper in 1979.

No doubt it has not hurt that his father, Thorvald Stoltenberg, was foreign minster and the UN mediator in the Balkans during the worst days of the war in Yugoslavia. His mother Anna has also served as a senior bureaucrat in Oslo.

In one respect, though, Jagland's choice of young Jens is something of a surprise. In 1992, when Gro stepped down as party chairperson, Stoltenberg père was the new premier's chief rival for the post. It has been conventional wisdom in political circles ever since that Gro's preference was for the loser.

As well as being supposedly the best-looking politician in town, Jens, who led a royal commission on the role of men in the 1980s, has an economics degree. Should come in handy – and anyway that black gold from the North Sea eases no end the burdens of office of a Norwegian finance minister.

Not so Doleful?

■ There is hope for Bob Dole yet. Because, on Saturday night, the New York Yankees won baseball's World Series.

In the five election years in which they have previously been in the finals, their three titles have coincided with a Republican taking the White House, their two defeats with a Democratic victory. This time, they came from behind – as Dole must – losing the first two games at home against the Atlanta Braves before winning the next three away and clinching the series back in the Bronx.

Mind you, most of the other widely watched indices – polls, the stock market, hem lines – tend to favour Bill Clinton.

The Financial Times

100 years ago

Gluttony and Insurance
In the Life proposal form of the Royal Insurance Company we observe: "Are you and have you always been of temperate habits as to eating and drinking?" The query as to eating is a searching one, and must drag many a sensitive conscience backwards to the recollection of Sunday School treats and Christmas dinners; but we question whether a proposer will ever acknowledge that he ate too much in the past. With the view of keeping his policy indisputable, many a man will own to long past intemperance in the absorption of liquids, but gluttony in the consumption of solids is so seldom recognised by the most experienced exponent of it that the plea of not guilty will be invariable.

50 years ago

The Diamond 'Racket'
"I have to be very, very careful that anything I do does not destroy the value of diamonds in the market," declared Mr. A. Creech Jones, Secretary of State for the Colonies, when he spoke on mineral resources in the Colonial Territories during the weekend. Referring to the recent diamond discovery in Tanganyika as the "richest in the world," he declared: "It may be a desirable thing that I should enter the diamond 'racket'".

FINANCIAL TIMES
Monday October 28 1996

German tax rises 'could break ruling coalition'

By Frederick Stüdemann in Berlin

Tensions in Germany's ruling coalition became public yesterday as several high-ranking members of the liberal Free Democratic party, the junior coalition partner, criticised the policies of Mr Theo Waigel, the finance minister.

Senior FDP figures warned that the coalition was at risk if Mr Waigel proposed increasing taxes to cover a likely DM7bn ($4.7bn) shortfall in the 1997 budget.

The budget gap has arisen because of the breakdown 10 days ago of talks with the opposition Social Democrats over government plans to postpone a rise in child allowance payments.

Speaking to the magazine Der Spiegel, Mr Wolfgang Gerhard, FDP chairman, said he was exasperated by the lingering uncertainty over the true state of government finances. He said he was tired of "having to discuss budgets with new numbers on a weekly basis".

Mr Gerhard said his party would not support any new tax rises and warned that the coalition would come to an end if Mr Waigel ignored the FDP's stance.

As evidence of the FDP's recognition of Mr Waigel's difficulties, Mr Gerhard pointed to his party's agreement to bridge some of the budget gap by postponing until 1998 a cut in the "solidarity tax" – a 7.5 per cent income tax surcharge to pay for reconstruction in eastern Germany. It was now the turn of the finance minister to make sure there were no further rises in either spending or taxes.

Mr Guido Westerwelle, FDP general secretary, said his party's recent rejection of a proposal by Mr Waigel to raise petrol taxes had created a "firewall" against efforts to use tax rises to balance budgets.

The finance minister was also criticised by Count Otto Lambsdorff, the FDP's economics spokesman, who in an interview with the Berlin newspaper Der Tagesspiegel called on Mr Waigel to make further spending cuts.

Mr Peter Hintze, general secretary of Chancellor Helmut Kohl's Christian Democratic Union, dismissed the FDP's attacks as "threatening gestures and unjustified allegations" and advised the FDP to concentrate on its own problems.

Meanwhile Mr Gerhard Schröder, a leading opposition figure, was criticised on all sides for a newspaper interview in which he said European monetary union should be postponed. Mr Schröder told Bild Zeitung: "I have ever-increasing doubts over whether we will be able to meet the criteria for monetary union."

Tung urges tightening of Hong Kong links with China

By John Ridding in Hong Kong

Mr Tung Chee-hwa, the shipping tycoon and a front-runner to head Hong Kong's post-colonial government, yesterday pledged to defend the territory's way of life but said closer co-operation with China was needed to secure a successful transition.

"We have to preserve our lifestyle," he said, referring to the transfer of the territory's sovereignty from Britain to China on July 1 next year. "That is the responsibility of the chief executive. That means freedom of thought, freedom of movement, freedom of capital and freedom of the press."

While Mr Tung was confident about the handover – citing the "parallel interests" of Beijing and Hong Kong – he expressed concern that political wrangles had distracted the territory from economic and social issues and the challenge of regional rivals, such as Singapore.

He claimed the Hong Kong government "could have done much better" in its handling of relations with the mainland, outlining a strategy of co-operation with Beijing rather than confrontation.

His remarks come as the selection process for chief executive enters its final stretch and as Mrs Anson Chan, one of the staunchest defenders of Hong Kong's autonomy, announced that she would not be seeking the post.

In a move that will reassure the local and international business community, however, Mrs Chan, the respected head of the civil service, said at the weekend that she wanted to play an active role in the transition. Mr Tung said he would seek to retain Mrs Chan in her post of chief secretary.

With Mrs Chan confirming she will not run, and with applications closing today, Mr Tung is seen as a strong contender to steer Hong Kong through the transition.

Rivals include Mr Peter Woo, a businessman, Sir Ti Liang-yang, the former chief justice, and Mr Simon Li, a former appeals court judge.

A decision is due by early December, when a candidate is expected to be nominated by a Beijing-backed committee and appointed by the Chinese government.

Mr Tung's stance on political development and support for China's plans to replace the territory's elected legislature marked a breach with Mr Chris Patten, the Hong Kong governor, who has said that the move could destabilise the territory. "We have very different views on that," Mr Tung said.

UK Labour

Continued from Page 1

on BBC television's *On the Record* programme, stressed that the determining factor should be what he calls "convergence of real economic performance" such as investment, employment and output.

The issue, he said, was "straightforward". "Will this decision help or hinder the creation of jobs in Britain?" If that were so, the attractions of a single currency would be clear. But he added: "Until we are confident that we have done that it could be very risky for Britain to give up the option in future of devaluing if that was necessary."

The prime ministers of Austria, Portugal and the Netherlands have given open support to what they see as Labour's more positive view on Europe.

EU wealth

Continued from Page 1

report. But so is the failure to close the economic divide between the prosperous south and the north of the UK.

The report challenges government claims that the whole country benefits from Conservative economic policies and could provide the opposition Labour party with political ammunition in the campaign for the general election which must be held before the end of May. The British government yesterday rejected the report's findings.

The commission report avoids specific comment on the success or failure of national policies. It relies instead on comparative economic data to illustrate the differences between member states.

EU set to close telecoms loophole

By Alan Cane in London

The European Union is set to close a loophole in its value added tax laws which enables overseas telecommunications companies to undercut local operators. Temporary legislation could be in place by January 1 next year, with a permanent ruling a year later.

Under current rules, telecoms operators not registered in the EU can supply services VAT-free, but EU-registered suppliers must charge the full tax rate. The UK says this leads to "distortions of competition and loss of revenue".

The UK has asked the European Commission to change the rules temporarily, pending a permanent amendment of EU law. Customs authorities in other EU states are backing the move because of concern about the effect of the loophole on local operators. New rules involving registration could cost non-EU companies substantial international market share and "tens of millions of dollars", according to Mr Tom Elliott, worldwide managing partner for communications businesses at accountants Arthur Andersen.

Mr Richard Baxter, senior tax manager for Arthur Andersen, said: "Some companies are fearful that if they register for VAT in certain countries they might expose themselves to further forms of corporate taxation."

The rule change is most likely to hit newer operators, call-back services set up to circumvent high European long-distance tariffs, and information services such as Compuserve, whereas large operators such as AT&T will not be affected.

Metropolitan Fibre Systems, a fast-growing US-based operator targeting business customers in the UK, France and Germany, said it was able to bill international customers free of VAT because of the rules.

Ms Pat Chapman-Pincher, MFS director of commercial operations, said the company was aware of the tax authorities' concern and was in talks to ameliorate the effects of the loophole's closure. It was also afraid the rule change would discriminate against financial services groups, educational organisations and charities which would be unable to reclaim VAT.

India consumer imports

Continued from Page 1

than double its exports to $75bn by the turn of the century, would be able to afford more imports as its exports rose. "We will not act under any kind of pressure," he said. "A process which can be sustained on a long-term basis is what we can offer."

India also had to consider the protection currently granted to small and medium-sized industries which have exclusive rights to manufacture 836 listed consumer items, such as footwear, garments, glassware, radios and some electronic goods.

THE LEX COLUMN

Europe in focus

From the Mediterranean to the Baltic, companies are changing faster than you can say European corporate restructuring. Sluggish economic growth, low inflation and strong currencies are forcing companies to become more competitive.

Cost cutting remains the starting point for improving profitability, such as this year's rationalisation at Switzerland's big banks, and the apparently relentless job reductions at Philips and Siemens. But as the shareholder value culture spreads, companies are latching on to more imaginative ways to improve returns.

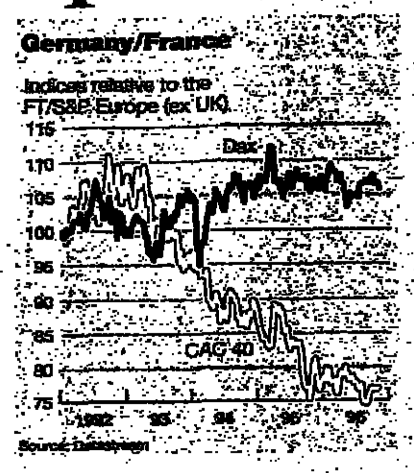
Focus is increasingly in vogue, particularly in Germany, where the landscape is dominated by diversified holding companies. Daimler-Benz has sold off a host of non-core activities in the process of turning itself back into a more modest, but more profitable, carmaker. Meanwhile, Hoechst is preparing to unlock value by demerging its pharmaceuticals arm, while French conglomerate Compagnie Générale des Eaux intends to spin off its telecoms businesses.

Concentrating on fewer activities is allowing companies to expand their remaining core businesses. Airlines and automotive component manufacturers have been consolidating for years. But the trend is spreading to regional businesses like retailers: Germany has seen the merger of Kaufhof and Asko into Metro, while France's Auchan supermarket took over smaller rival Docks de France.

The next phase, still in its infancy in Europe, will be financial restructuring. Dividend growth still ranks as a low priority on the Continent, while share buy-backs are illegal in many countries. That is slowly changing and Sweden and Switzerland may lift restrictions in the next 12 months. But German approval for share buy-backs is likely to be delayed until a more general reform of the tax system in 1998.

Even so, Germany has embraced the idea of shareholder value with the greatest enthusiasm. And with average returns on equity of 9 per cent, against 17 per cent in the US, there is huge scope for improvement.

Brokers estimate that successful restructuring could add 20 per cent to German equity values. By contrast, France, despite a more shareholder-friendly legal and fiscal framework, has yet to show much cultural change. The next five years



may still prove as big a disappointment as the past five.

Landing slots

How much is an airport landing slot worth? Given the likelihood that the European Commission will let slots be openly traded, it is a question worth trying to answer.

In theory, the picture should be clear: where slots are in short supply, they should be worth the capitalised value of the profits a buyer could extract. But this varies hugely. Profitability on short-haul flights is often marginal. But from each slot used for long-haul flights, according to BZW estimates, British Airways makes average post-tax earnings of £4.5m ($7m) a year. At BA's price/earnings multiple, that implies a slot could theoretically be worth £60m or so – depending on the value of the slot at the other end of the route. Using the same kind of analysis, BZW reckon BA's Heathrow slots alone are worth £4bn-£5bn.

Ultimately, values like this could greatly strengthen airline balance sheets. But a sharp increase in the value of an airline's assets would not in itself increase its market value. On the contrary, it would just show that its return on assets is lower than it previously looked.

What will make a financial difference is incumbent airlines selling or leasing slots to others. Certainly, if slots become tradeable, airlines will less often hang on to slots on the off-chance they may one day be wanted. The result should be a better allocation: less profitable short-haul operators will have a strong incentive to sell to long-haul operators and shift their services to less prestigious airports. And as in telecoms, the result should be a healthy rebalancing as more competition brings fat long-distance margins under pressure.

But this is probably too neat a picture. A big international airline using a slot for a not very profitable short-haul route will not necessarily be keen to sell to a competitor running a long-haul route instead. After all, it could use the slot for a long-haul route itself. And it may not be doing so for good reasons: short-haul routes are usually worth more than they seem thanks to the feeder passengers they bring.

For this reason, international airlines are unlikely to be big net sellers of slots. Far more plausible candidates are short-haul operators – the likes of British Midland, which has lots of Heathrow slots but could perfectly well fly from elsewhere. With US airlines queueing up to crack into Heathrow, it is almost certainly sitting on a gold mine.

Retail banking

The idea of having your grocer double as your banker would until recently have seemed absurd. But with companies as diverse as Microsoft and Marks and Spencer turning their hand to financial services, J. Sainsbury's plan to launch a bank seems less remarkable. It does, however, underline the extent of the challenge high street banks are facing. Retailers are betting that the combination of customer loyalty, strong brands and the dismal reputation of many banks presents a good business opportunity. Given the rich profits available from retail banking, they have every reason to try. In the case of Bank of Scotland, Sainsbury's joint venture partner, the decision to participate was easy; it has only a limited presence in England. But a bank like Barclays faces a more acute dilemma: on the one hand, it risks cannibalising its own customers in such a structure. But if it is going to lose them anyway, it should try to grab some of the spoils. NatWest's decision to co-operate with Tesco can be viewed in this light.

While the new pretenders have a clear lead over the banks on service, they don't hold all the aces. Inertia will prevent many customers moving, while others will still be happier trusting their life savings to a conventional bank. Retailers will also need to be careful they don't damage their franchise by generating customer dissatisfaction in areas tangential to their main interests.

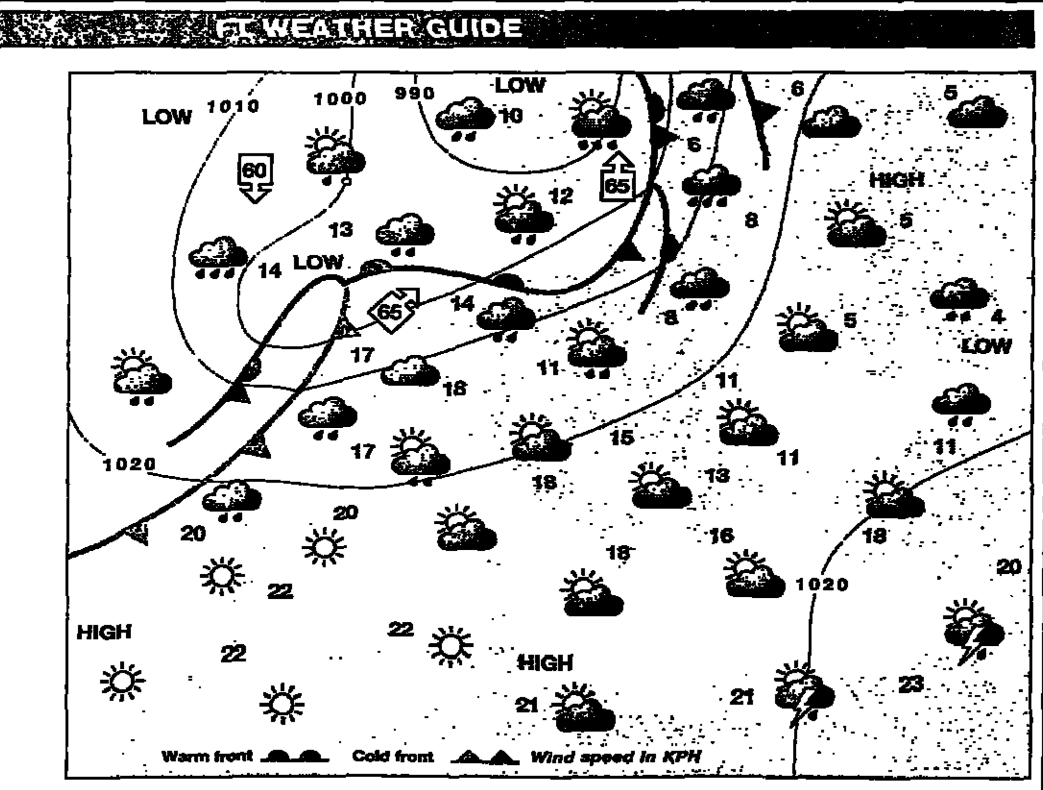
FT WEATHER GUIDE

Europe today

The British Isles, western France, the Benelux and northern Spain will have plenty of rain. There will be gales in the English Channel and southern part of the North Sea. Southern Scandinavia, northern Germany and Poland are expected to have rain. The Balkans will have sunny spells. Serbia and Hungary will have occasional showers. Southern Europe will be dry and sunny with temperatures reaching 24C in southern Spain.

Five-day forecast

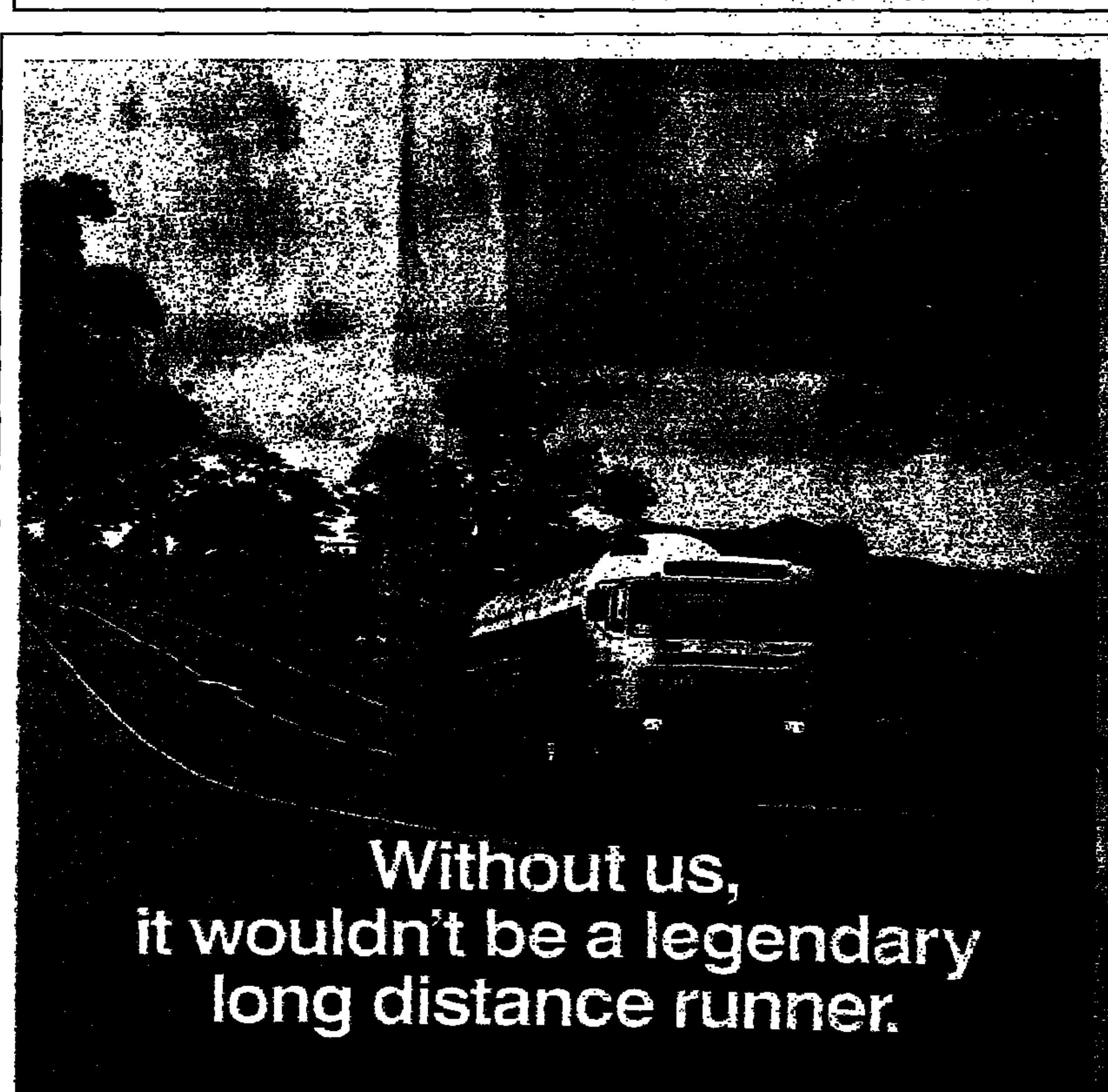
The British Isles will be dry with sunny spells on Tuesday and Wednesday. More rain is expected by Thursday. The Benelux and central Europe will be unsettled. The Alps will have plenty of rain and snow. Italy and the Balkans will have heavy showers or thunderstorms.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

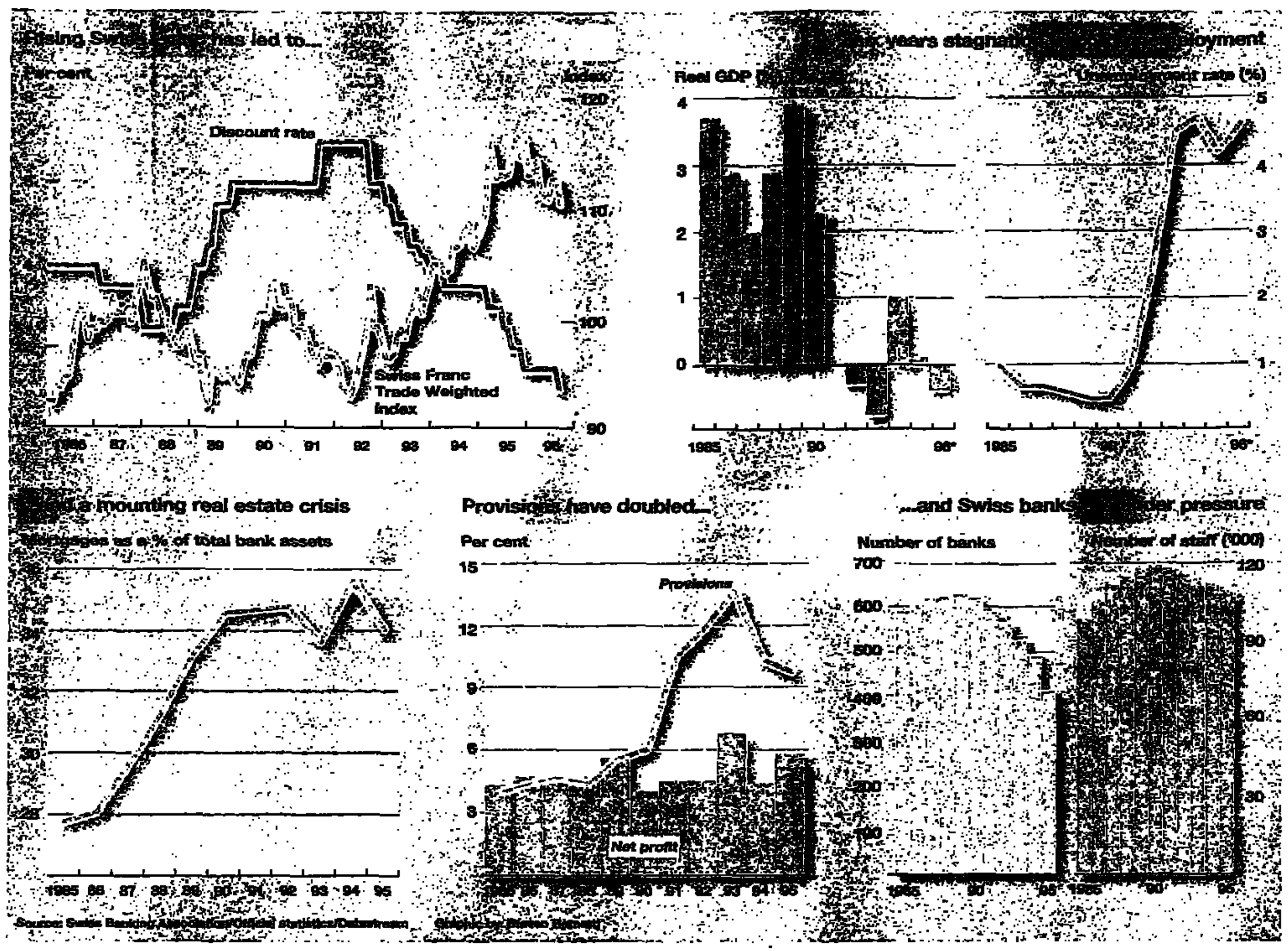
	Maximum	Beijing	sun 18	Caracas	fair 32	Faro	sun 23	Madrid	sun 20	Rangoon	cloudy 32
	Celsius	Belfast	rain 11	Cardiff	rain 15	Frankfurt	cloudy 18	Majorca	fair 21	Reykjavik	fair 0
Abu Dhabi	sun 32	Belgrade	cloudy 13	Casablanca	sun 22	Geneva	shower 16	Malta	fair 21	Rio	shower 30
Accra	shower 30	Berlin	drzzl 13	Chicago	sun 12	Gibraltar	sun 21	Manchester	rain 14	Rome	fair 20
Algiers	sun 24	Bermuda	fair 26	Cologne	drzzl 17	Glasgow	rain 10	Manila	cloudy 30	S. Frsco	sun 21
Amsterdam	rain 16	Bogota	shower 20	Dakar	sun 31	Hamburg	drzzl 14	Melbourne	fair 18	Seoul	shower 17
Athens	fair 16	Bombay	fair 32	Dallas	shower 21	Helsinki	rain 7	Mexico City	shower 25	Singapore	shower 32
Atlanta	shower 27	Brussels	drzzl 17	Delhi	sun 31	Hong Kong	fair 29	Miami	sun 29	Stockholm	shower 11
B. Aires	fair 29	Budapest	rain 10	Dubai	sun 32	Honolulu	fair 31	Milan	cloudy 15	Strasbourg	fair 16
B.ham	rain 15	C.hagen	rain 12	Dublin	rain 13	Istanbul	fair 13	Montreal	cloudy 12	Sydney	shower 22
Bangkok	shower 32	Cairo	fair 23	Dubrovnik	fair 15	Jakarta	cloudy 30	Moscow	fair 5	Tangier	sun 22
Barcelona	fair 20	Cape Town	sun 21	Edinburgh	rain 10	Jersey	rain 17	Munich	shower 16	Tel Aviv	shower 23
						Karachi	sun 34	Nairobi	fair 29	Tokyo	rain 18
						Kuwait	sun 31	Naples	fair 17	Toronto	fair 10
						L. Angeles	fair 22	Nassau	fair 29	Vancouver	rain 12
						Las Palmas	sun 26	New York	shower 19	Venice	cloudy 14
						Lima	fair 21	Nice	shower 18	Vienna	shower 14
						Lisbon	sun 20	Nicosia	shower 20	Warsaw	rain 8
						London	rain 17	Oslo	fair 10	Washington	shower 23
						Lux.bourg	drzzl 14	Paris	cloudy 17	Wellington	rain 17
						Lyon	fair 18	Perth	fair 29	Winnipeg	fair 8
						Madeira	fair 24	Prague	drzzl 13	Zurich	cloudy 15



SWISS BANKING

Buffeted by stormy seas of change

Switzerland's bankers are battening down the hatches. The most pressing problem which they must face is the low profitability of their traditional domestic banking business. **William Hall** reports



Every generation of bankers likes to believe that the *challenges they face* are more demanding than those that confronted their predecessors. But for once Switzerland's bankers may be right. It is hard to remember a time when the country's banking system has been buffeted by so many conflicting forces.

At a domestic level, the banks are having to come to terms with a Swiss economy which has stopped growing for the past five years. The combination of a steadily appreciating Swiss franc and a stagnant economy have taken a heavy toll on bank customers.

According to the statistics of the Swiss Bankers Association (SBA), the country's banks have been forced to more than double their *provisions over the period*, to a massive SFr56.5bn, while their combined net profits of SFr26bn between 1991 and 1995, are only SFr2.5bn higher than in the previous five years.

Meanwhile, at an international level Swiss banks, as a proxy for Switzerland, are facing the most concerted attack on their reputation for probity in decades.

Allegations about Switzerland's war-time role in handling looted *Nazi gold, and accusations that* its banks are still sitting on billions of dollars which belong to the survivors of victims of the holocaust, are undermining Switzerland's efforts to shake off its image as a loosely-regulated financial centre whose advantages are based on a belief that the less questions asked the better.

This background would test the business judgment of even the most seasoned Swiss banker. However, the level of uncertainty has been raised by the arrival of a new generation of younger bankers at the top of the big three Swiss banks. Union Bank of Switzerland and Swiss Bank Corporation have both appointed new chief executives since the start of the year and Mr Lukas *Mühlemann, chief executive of* Swiss Re, the world's second-biggest insurer, takes over as chief executive of Credit Suisse, at the *end of the year*. Meanwhile, Mr Hans Meyer has taken over as chairman of the Swiss National Bank and Mr Daniel Zuberbühler, as director of Switzerland's Federal Banking Commission, which supervises the country's 400-plus banks.

For Switzerland's Big Three banks, *the most pressing problem* is the low profitability of their traditional domestic banking business. For years, the substantial profits from their private banking operations, where Switzerland is the world leader, have disguised the very low returns on domestic banking.

Credit Suisse's response has been to axe a third of its outlets and shed 3,500 jobs, or about 15 per cent of its domestic workforce. Swiss Bank Corporation is cutting its branch network by a third and Union Bank of Switzerland is expected to announce a similar restructuring next month. The cutbacks have damaged morale among Switzerland's 109,000 bank employees and have not gone down well in the rest of *Switzerland. But the action is* overdue, and necessary, if Swiss banks are to continue to play a role on the world stage out of all proportion to the size of their domestic market.

Mr Rainer Gut, Credit Suisse's chairman, says that Swiss banks are caught up in a "tide of structural change against which it is impossible to swim".

Such comments will probably raise a wry smile from Mr Martin Ebner, the maverick Swiss financier who has mounted a long-running campaign against Union Bank of Switzerland, the country's biggest bank. He claims that it has not been running its business in the best interests of its shareholders. The same accusations could easily be laid at the door of the other two Swiss banks.

However, the question "Did they jump, or were they pushed?", is increasingly academic. Swiss banks may not have been the first in Europe to put their house in order. But the speed with which they are now addressing the problem of overcapacity in their home market is a lesson to banks in neighbouring countries such as France and Germany.

The big three Swiss banks have signalled very clearly that they do not intend to let the problems of their domestic operations undermine their obvious international ambitions.

Such moves are leading to a rapid breakdown of the traditional ways Swiss banks go about their business. They are still big supporters of the SBA and would probably blackball Mr Ebner again, if he ever tried to join their club. But their cosy relationships are increasingly a thing of the past. The old interest rate cartel has long since disappeared and the time has probably passed when the SBA could be relied upon to find one of its bigger members willing to take over a troubled bank and remove it from the Swiss Banking Commission's problem list.

Ten years ago, it would have been unthinkable for Mr Rainer Gut, the chairman of Credit Suisse, to publicly propose a merger with UBS, his bigger rival, as he did earlier this year, and then be rebuffed. In the past, such matters would have been settled behind closed doors. However, the banks are much more conscious of their competitive stock market ratings and are no longer afraid of embarrassing each other in public if this is to their competitive advantage.

The changes under way at the big three banks, which account for more than half of Switzerland's bank assets, are mirrored right the way through the Swiss banking system. The need for outside capital is putting increasing pressure on the dwindling number of private banking partnerships and it seems only a matter of time before the exclusive Swiss Private Bankers Association, which traditionally supplies the president of the Swiss Bankers Association, has to open its doors to private banks with limited liability.

The state-owned cantonal banks, which have a 30 per cent share of domestic retail banking, are experiencing equally dramatic changes. They have been even more exposed to the collapse of the Swiss real estate market than the Big Three and their local communities are increasingly unwilling to shoulder future losses. Some have decided to sell their cantonal banks. UBS recently bought the Appenzell Kantonalbank and local voters have agreed to the partial privatisation of the Cantonal Bank of St Gall, Switzerland's seventh-biggest bank. It is expected to be a precedent which will be followed by other cantonal banks.

These moves, together with efforts to bring the cantonal banks under the direct supervision of the Federal Banking Commission, should help reduce the distortions in the domestic banking market where some banks have been able to take advantage of their state-guarantee to undercut their more commercially-minded rivals.

Up to now, Switzerland's 155 foreign banks have not been caught up in the wave of domestic restructuring. Unlike the rest of the competition, their numbers are still growing. Nevertheless, they face several challenges of which the most immediate is the implementation of the proposed new rules on the supervision of cross-border banking which have been released by the Basle Committee on Banking Supervision, under the umbrella of the Bank for International Settlements.

Despite their proximity to Basle, Switzerland's foreign banks have a lot at stake. The vast majority of them operate through subsidiaries in Switzerland and this means that until now they have only been supervised by the Swiss banking regulator. Under the proposed changes, overseas bank inspectors can conduct on-site inspections and this prospect is causing considerable concern in some quarters of the Swiss foreign banking community which cherish their bank secrecy.

One unfortunate side-effect of the recent upheavals is that it has led to a power vacuum at the top of Swiss banking, as opposed to the individual banks. This could not have come at a worse time, because recent allegations about the war-time activities of Switzerland's financial institutions are fuelling the popular international stereotype of greedy and immoral Swiss bankers.

There is a very real question to be answered by Switzerland. What price did it pay for remaining neutral during the second world war, and was it justified by the cost to others? So far the leaders of the big three Swiss banks have refused to enter the debate, leaving their case to be argued rather unconvincingly by the Swiss Bankers Association. They may come to regret their failure to take up the challenge.

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■ **The economy:** by Frances Williams

Pick-up expected to be modest

The strong Swiss franc must bear much of the blame for the recent woes

Six years of economic stagnation have jolted the Swiss out of their habitual complacency. With growth of just 0.2 per cent annually so far this decade, Switzerland's economic performance has been worse than any European country except Finland.

The latest news on the economy annihilated any vestige of hope that this year might see the end of the longest recession since the second world war. Gross domestic product fell in the spring quarter (the sixth successive quarterly drop) and most commentators are predicting zero or negative growth for the full year.

The pick-up in economic activity next year is expected to be only modest, variously forecast at 0.5-1.5 per cent, and no real recovery is likely before 1998.

Mr Hans Kaufmann of Bank Baer in Zurich, who is predicting a 0.8 per cent drop in GDP for 1996, says downward revisions to growth in 1994 and 1995 imply a lower level of economic output this year than in 1990 when the construction-led rapid growth of the 1980s came to an abrupt and painful halt.

Because the Swiss population has risen by more than 5 per cent in that time, this would suggest "a significant reduction in the per capita standard of living", Mr Kaufmann points out.

Unemployment, which peaked at over 5 per cent in early 1994, is now 4.6 per cent and rising again. These jobless rates, though low by international standards, are still shockingly high for most Swiss who lived with virtually full employment for nearly half a century.

Sweeping plans to restructure the domestic banking system announced by Switzerland's big three banks, and the merger of Ciba and Sandoz, the Basle-based chemicals giants, have also contributed to an unprecedented sense of insecurity now felt by many Swiss workers.

Consumer confidence is at rock-bottom. Retail sales are in the doldrums. But the ground for an upturn has nevertheless been prepared

A survey published in July found that seven in 10 Swiss workers feared unemployment or wage cuts. Consumer confidence is at rock-bottom. Retail sales are in the doldrums.

The strong Swiss franc must bear much of the blame for the country's recent woes. Regaining its reputation as a haven currency for nervous overseas investors, it has appreciated by 15 per cent over the past three years and reached record levels in 1995 against the dollar and other leading currencies.

Despite a weaker trend this year the franc is still too strong for comfort, leaving many Swiss companies struggling to stay afloat and savaging the important tourism industry which is experiencing its worst recession since the war.

Even the Swiss National Bank admitted earlier this year that the franc was "massively overvalued" – but failed to do anything about it until the summer when it became clear that the economy, far from picking up, was sinking deeper into the morass. Mr Georg Rich, SNB chief economist, even expressed fears that Switzerland could be facing a 1930s-style deflation with falling prices.

In August, the SNB began injecting funds into the money markets to bring short-term rates down and, on September 27, cut the official discount rate by half a point to 1 per cent, its lowest level since 1978. It did so despite above-target money supply growth which the SNB attributed to a shift in demand for liquidity by the banks.

"The decision was taken to create the best conditions for the Swiss economy to stage a recovery when activity picks up in Europe, without being neutralised by an over-strong franc", Mr Jean-Pierre Roth, SNB deputy director, said later.

The SNB move has had some effect in weakening the franc but analysts are split over whether the downward trend can be sustained. Mr Kaufmann of Bank Baer thinks it can, given the wide interest differentials between the franc and other currencies.

Others believe the franc will remain at the mercy of capital inflows at times of exchange rate turbulence and uncertainty over the European Union's planned common currency, the Euro. "A certain overvaluation of the Swiss franc will continue", says Mr Peter Buomberger, chief economist at Union Bank of Switzerland.

The ground for an upturn has nevertheless been prepared. Interest rates are low. Inflation is running at 1 per cent or less – which means prices are broadly stable, by the SNB's definition. Producer prices have been falling steadily since last year. "Currently, no inflation danger is perceptible on the horizon," says Mr Alois Schwietert, chief economist of Swiss Bank Corporation.

But the impetus for growth is lacking. Exports and investment in plant and equipment, the only buoyant sectors in recent years, have begun to run out of steam. Consumer spending remains depressed; construction is in free fall; and the government is battling to rein in the budget deficit – a task made all the harder by the recession.

Calls for counter-cyclical investment to stimulate the economy and create jobs have fallen on deaf ears, although in the longer term high hopes are being pinned on the government's SFr30bn plan to drill two new rail tunnels under the Alps.

Making things worse in the near term is the sluggish performance of neighbouring economies, which take the bulk of Swiss exports. Germany alone accounts for a quarter of Swiss goods sent abroad. "We can't create good weather in Switzerland if it's bad in our neighbours", Mr Roth admits.

■ **The stock exchange:** by William Hall

Delays have plagued electronic bourse

The EBS is far more than a cost-effective dealing and settlement system

Switzerland's image as a country where everything works like clockwork took a bit of a knock in the run-up to this year's launch of the country's new electronic stock exchange.

The project has been plagued by delays and has cost more than was planned. It got off to a bad start when trading in some of Switzerland's best known blue chips had to be halted because inexperienced traders had punched in the wrong prices.

The project, known as the Elektronische Börse Schweiz (EBS), has been under way since 1992. It was originally scheduled to cost less than SFr80m and begin operating in March 1995. In the end it appears to have cost about SFr125m, with member banks investing as much as another SFr500m in converting their dealing rooms and back-office systems. Electronic trading in foreign shares began last December, but trading in Swiss equities and bonds did not get under way until August 1996.

The EBS is far more than an efficient and cost-effective dealing and settlement system. It has been used as the excuse to weld together Switzerland's three competing stock exchanges (Zurich, Basel and Geneva) and Soffex, the options and derivatives exchange.

A new stock exchange act has been passed to ensure transparency and equality of treatment of investors. And it has also triggered an important overhaul of the regulatory system with power for supervising the securities industry being transferred from cantons – who often treated the exchanges as useful revenue earners – to the Federal Banking Commission.

Against this background it is no wonder that there were some early grumbles. In many respects the institutional challenges posed by the conversion to electronic trading, have probably been more onerous than the technical challenges which have been blamed for the delays.

The transition from a traditional stock exchange to an electronic exchange has introduced powerful changes in business relationships, professional skills and cost structures. The number of people able to trade under the new system, for example, has more than doubled to more than 1,200, which has led to criticism from old-timers that the new traders are unprofessional. The changes have led to compromises and the rather odd situation that the new Swiss stock exchange seems to be run by a series of committees.

Mr Jörg Fischer, chief executive of Bank J. Vontobel, is chairman of the exchange and has been acting as its effective chief executive. If the Swiss stock exchange really wants to capitalise on its new trading system to strengthen its international competitive position it will probably need a full-time chief executive in the longer term.

In the short-term, however, the new electronic trading system seems to running much more smoothly than some had predicted. The early problems which resulted in embarrassing trading halts in the shares of Swiss blue-chips such as Roche, ABB and Swissair, have been solved by a modest change in the rules.

Mrs Antoinette Hunziker-Ebneter, a member of the exchange's management board, says that the new system is proving to be "very fast and stable". She reckons that 90 per cent of all trades are being done in less than two seconds.

> There is continuous trading in all shares rather than just a few blue chips

Dealing spreads on big shares, such as Ciba, have narrowed from SFr5 to SFr2, and in some cases are down to SFr1. There is more liquidity and there is continuous trading in all shares now rather than just a handful of blue chips.

Mr Daniel Schweizer, managing director of European equities at Swiss Bank Corporation, shares her enthusiasm. Under the new system, his dealers can get a much better view of the market – from the current order position, to details of trades completed. Mr Schweizer says that this gives him a much clearer feel for his market share and the continuous trading of shares makes it far easier to complete complicated index arbitrage transactions.

"When you were trading 800 different products in four different trading rings, as was the case with the old open outcry system, there was no chance to trade them all permanently," says Mr Schweizer. If there was an important announcement affecting Sandoz or Ciba, for example, it was often impossible to deal in the shares of Roche or Nestlé.

Overseas brokerage houses have also noticed the change in tempo. "It is a lot easier to judge where you can buy and sell in volume," says the head trader of one US firm. "Before, you had to rely on brokers' opinions."

One drawback is that there are still limits on the size of transactions which must go through the market. Trades of more than SFr200,000, for example, can be conducted outside the market. However, they are reported after a delay and the improved transparency of transactions is reducing price distortions. Inevitably, this works to the benefit of the big firms and undermines the rationale of some of the smaller stock exchange members who specialised in profiting from these market inefficiencies.

"In the old days, banks might have taken advantage of these price inefficiencies to bolster their profits," says one trader who believes that as a result there are "quite a lot of unhappy people in some of the smaller banks".

Trading in August and September has been running well below the levels earlier in the year. Mrs Hunziker believes that this may partly reflect the elimination of arbitrage between the three regional stock exchanges. However, it also reflects an understandable caution on behalf of traders until the new system has been tested in terms of its reliability and capacity.

However, Mr Marcel Ospel, chief executive of Swiss Bank Corporation and a member of the stock exchange board, believes that the advantages of Switzerland's new trading system are of a temporary nature. "The key question facing the Swiss exchange concerns its future role in an increasingly international environment and a market," says Mr Ospel.

This involves delicate questions such as whether non-members should be given access to Switzerland's new trading market and what constraints should be placed on the enthusiasm for listing increasingly sophisticated trading products.

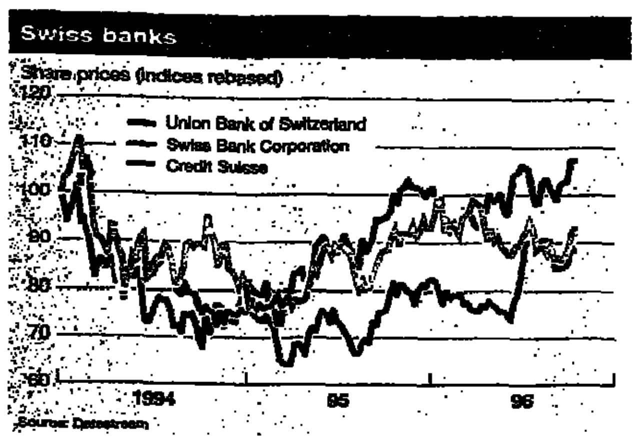
The speed of technological change is such that despite the initial euphoria over the successful launch of the EBS, its long-term future in an era of rapid technological change cannot be assured.

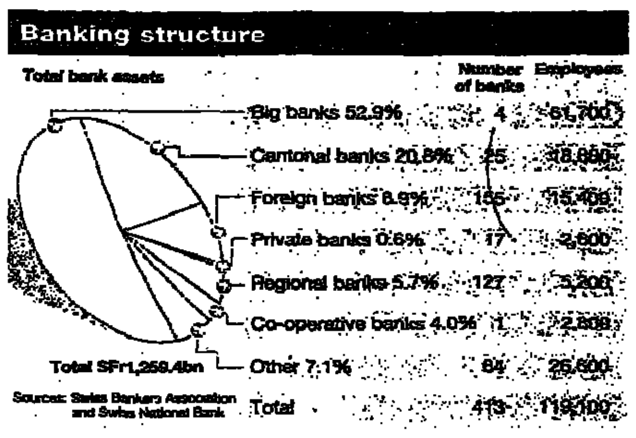
Mr Ospel's view is that the exchange should make the most of its new technical advantages to decide on its future strategy. The successful launch of EBS is just the first step.

Retail banking: by William Hall

Cut-backs are gathering pace

Low profitability has prompted banks to take the axe to their branch networks





Switzerland has always been regarded as one of the world's most over-banked countries. With close to 4,000 bank branches serving a population of 7m, it has about 40 per cent more banking outlets than Sweden, which is a bigger country.

Since 1990 the number of bank branches has fallen by about 10 per cent and the numbers employed in domestic banking have fallen by roughly 1 per cent a year from a peak of 120,000 in 1990. However, the pace of contraction has accelerated over the past few months as first Credit Suisse, and then Swiss Bank Corporation, announced swingeing cuts to their domestic branch networks.

The reasons for the change of pace are not hard to find. The Swiss economy has stagnated for the past six years. The banks' loan loss problems in the real estate market, which had been a target for aggressive expansion in the early 1990s, have spread to other sectors with the result that Swiss banks have become increasingly conscious that the low profitability of their domestic operations is damaging their ability to finance their ambitious international expansion plans.

In the past they tried to repair their domestic profits by buying market share. In 1993, Credit Suisse bought Swiss Volksbank, Switzerland's fourth-biggest bank, and a year later New Bank of Argovie, Switzerland's largest regional bank.

UBS acquired 150,000 new customers by buying five regional banks in 1994. Swiss Bank Corporation added an extra 30 new branches with the purchase of the privatised cantonal bank of Solothurn, plus various other small regional banks.

However, continuing pressure on costs and rapid changes in technology have raised serious doubts about the wisdom of buying market share. The big three Swiss banks may control more than half of Switzerland's bank assets, but in the retail banking market, their market position is far less dominant. The state-owned cantonal banks have almost as big a branch network as the big three Swiss banks. Add in the networks of the regional banks and the local *raiffeisen* banks – community banks which specialise in mortgage lending – and the big three banks only account for a quarter of total domestic bank outlets.

Meanwhile, the PTT, Switzerland's state-owned postal and telecoms service, appears to be preparing to attack the retail banking market. It already has a dominant position in domestic money transfer with 1.6m giro accounts and it is moving rapidly into electronic banking.

More than 1.3m micro processor-equipped Postcards are being used for cashless payments and withdrawals from automatic teller machines. Nearly half of its 3,600 outlets are equipped with electronic terminals which allow customers to conduct all their postal transactions on a cashless basis. Last month, the PTT signed up Swiss Bank Corporation to help it begin selling savings products to its customers. The PTT is due to be privatised before the end of the decade and this is may increase the likelihood that it will become a mainstream competitor in the retail banking market.

At the same time, supermarket chains such as Migros are cultivating their natural customer base to expand their retail banking activities. Migrosbank, for example, underlined its increasingly aggressive approach to the retail banking market by leading the recent round of mortgage rate cuts following the Swiss National Bank's decision to cut its discount rate.

The big Swiss banks may have been slow in responding to the increasing competition in Swiss retail banking, but they are now moving quickly to put their business on a more profitable footing.

Their strategy is to cut their cost base by cutting the number of small branches.

Credit Suisse, which probably has the biggest share of the retail market, has been the most ruthless in the pruning of its domestic branch network. In July it announced that it was combining its own branch network with that of the recently acquired Swiss Volksbank, which had been run as a separate unit.

Of the combined group's 376 branches, there was dual representation in 224 locations. Under the restructuring plan, Credit Suisse will amalgamate its branches where there is an overlap and close another 21 outlets. As a result, it is cutting its total retail network by a third and reducing its domestic workforce by 3,500 or 15 per cent over the next three years.

The cutback in Swiss Bank Corporation's retail banking operation is less severe. It is reducing the size of its domestic branch network by about a quarter and cutting staff numbers by 1,700, or just under 10 per cent. Most of the branches it is closing employ between three and six staff.

The big unknown for both Swiss Bank Corporation and Credit Suisse is whether the sharp cutback in the size of their retail banking network can be completed without damaging their customer base. Both banks are betting heavily that the benefits of economies of scale and investments in state-of-the art processing technology will strengthen their competitive edge in servicing retail customers.

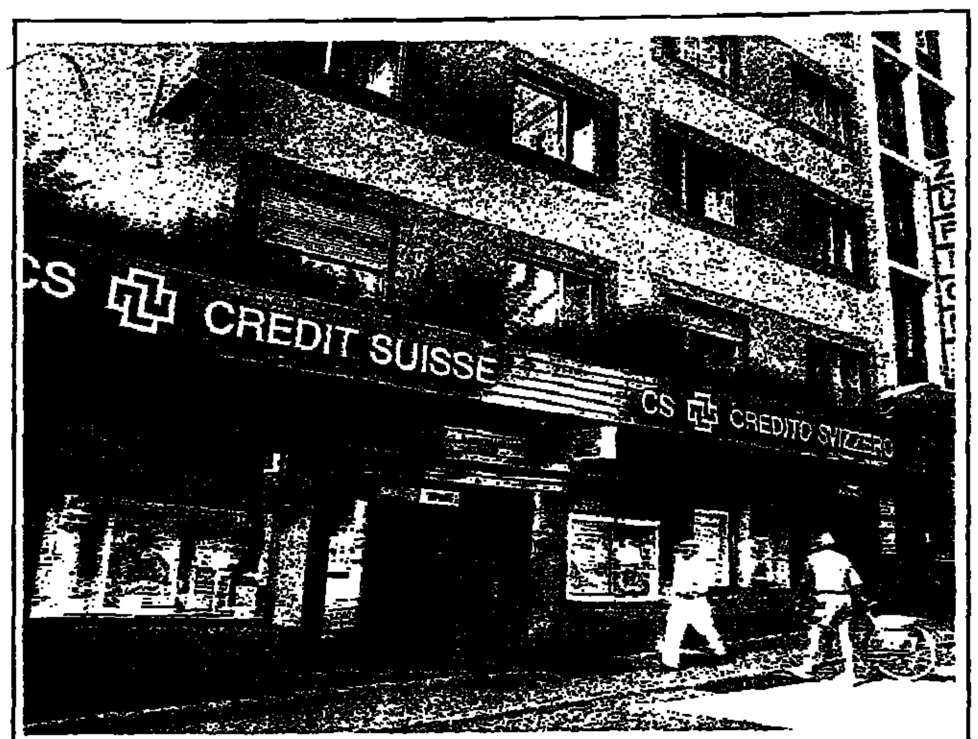
Swiss Bank Corporation, in particular, believes that its future success in retail banking lies in strictly separating its sales and back-office procedures. It has invested heavily in three regional back-office technology centres in Basel, Geneva and Zurich. It likens them to factories where highly specialised, centralised units produce customer-driven internal processes and basic services such as payment systems, and securities management.

Union Bank of Switzerland, the biggest of the three banks, is expected to announce its own domestic restructuring towards the end of November. After the cut-backs, Credit Suisse and Swiss Bank Corporation, will each have just under 250 branches apiece. At the end of last year, UBS had 324 domestic outlets which suggests that there could be room to trim branch numbers by about 10 per cent.

Fortunately for UBS, it has kept its personnel costs and staff numbers under better control than its rivals. Nevertheless, it is well aware that the shift towards self-service banking, via telephone or personal computer, is reducing the volume of face-to-face business transacted over traditional branch counters.

Mr Rainer Gut, chairman of Credit Suisse, said earlier this month that Switzerland was "caught up in a tide of structural change against which it is impossible to swim".


The PTT appears to be preparing to attack the retail banking market Picture: Alan Harper



Credit Suisse: 'Heavily involved in direct banking in Switzerland and active in PC banking'

Interview: Paul Meier of Credit Suisse

Excess capacity 'dented profits'

Credit Suisse, the market leader in Swiss retail banking, was the first to announce a big restructuring of its Swiss business. Mr Paul Meier, 51, the new head of the group's domestic business, explains the pressures which led to the changes and the challenges facing Swiss retail bankers:

Question: What are the main factors affecting profitability in Swiss domestic banking?

Answer: The profitability of Swiss domestic banking has been dented by excess capacity and the resulting pressure on prices. Interest rate margins in Switzerland have consequently been around half the European average.

Additional factors are the shake-out in the Swiss property market – which has been going on for several years – and a weak economy which has kept the banks' provisions at a high level.

UBS has reported that loan problems in the Swiss real estate market have spread to other sectors of the economy. Is this your experience?

By the end of the 1980s the property markets had overheated. Real estate speculators and developers, who were sitting on their property, bore the full brunt of the collapse. Current estimates put the average fall in Swiss residential property prices since their peak at the end of the 1980s at between 25 per cent and 30 per cent. Industrial property prices have, in places, fallen even more sharply.

This has made the situation difficult for the construction sector which still accounts for 13 per cent of GDP. Meanwhile unemployment has risen above 4 per cent – a level not seen in Switzerland since the 1930s. And because the Swiss economy remains weak, despite all the predictions to the contrary, we expect loan loss provisions and write-downs to remain high in the years ahead.

How do banks in Switzerland compete when they are selling very similar retail banking products?

First, you need to offer a distinct package of products and services geared as closely as possible to customers' needs, making banking simpler for them by providing them with straightforward solutions.

Second, strong customer retention through high levels of customer care and professionalism can do much to distinguish one bank from another. Successful banks are gearing their services more and more towards customer groups with similar needs, offering them tailor-made products at competitive prices.


Meier: changes and challenges

Banks are having to invest heavily in new technology. How is this changing the role of bank branches and the local bank manager?

Credit Suisse is heavily involved in direct banking in Switzerland and is active in PC banking. We are examining all the opportunities the Internet has to offer and will certainly take advantage of them as soon as the matter of security has been resolved to our satisfaction and that of our customers.

Our telephone bank has been profitable since its second year. Direct banking has a bright future as an alternative to traditional distribution channels. However, the cost of developing these new instruments will require enormous financial resources and will have a profound impact on the banking landscape.

The traditional branch network will be deeply affected, although it will not be replaced altogether. In fact, I am certain that it will contribute significantly towards our maintaining the necessary relationship with our customers.

What are the main benefits which will result from the combination of the domestic business of Credit Suisse, Swiss Volksbank and Bank Leu?

By combining the three banks we can continue to sell our products and services through a branch network that – in spite of the amalgamation – will still be extensive.

Our combined size will mean that we can avoid having suboptimal offices in small locations. This will enable us to offer a higher standard of customer service and produce our services more cost-effectively.

William Hall

■ **Private banking:** by William Hall

Club membership is dwindling

Despite a fall in the number of private banks, the Swiss still lead the sector

Switzerland's most exclusive club is about to become a little bit more exclusive. The 121-year old Bank Falck & Cie, the only private bank in central Switzerland, is being taken over by Julius Baer, a Zurich bank, and so will have to resign from the 17-member Swiss private bankers' association, which represents the dwindling number of private Swiss banking partnerships.

Julius Baer once belonged to the same club, whose members are unlimited liability partnerships, but quit in the mid-1970s. It needed access to outside capital to finance its expansion and wanted to make sure its business was not threatened by the problems of management succession which face small partnerships.

It floated its shares on the stock market as did J. Vontobel & Co, another Zurich private bank. By contrast, Ferrier Lullin & Cie, another well known Geneva private banking partnership, decided to sell out to Swiss Bank Corporation.

Fifty years ago there were 95 private banks. By the end of the 1980s, the total had shrunk to 22. Since then, numbers have fallen still further as Darier and Hentsch, two Geneva banks, have merged. Vontobel has taken control of Geneva's Tardy, de Watteville and now Baer is buying 51 per cent of Falck, which is based in Lucerne and specialises in portfolio management.

The reasons given for the latest takeover have been well rehearsed before. Mr Rudolph Baer, chief executive of Baer, says his bank is keen to strengthen its position in central Switzerland and Falck wants access to Baer's international management skills. *Nevertheless*, they cannot disguise the fact that Baer has one thing that Falck does not – SFr1bn in capital.

Private banking is not a capital-intensive business but increasingly institutional customers like to see strong balance sheets, and the costs of modernising even a small fund manager's back-office computer system are rising inexorably.

However, the decline in the numbers of Switzerland's pure private banks does not signal that Switzerland's private banking industry, the biggest in the world, is in terminal decline. Far from it.

The bigger private banks, such as Pictet and Lombard Odier, are thriving. Mr Ivan Pictet, a partner in the family-owned bank, delights in not having to worry about his shareholders and Mr Thierry Lombard believes that his customers like to know that he and his partners' assets are on the line if the bank runs into trouble.

It is the sort of discipline which might have prevented the recent problems at Morgan Grenfell Asset Management or Barings.

Private banks in Switzerland come in all shapes and sizes. Swiss Bank Corporation, the smallest of the big three banks, is believed to be the largest in terms of private banking. It does not disclose the size of its funds under management. But Chase Manhattan, a US rival, has estimated that SBC controls $360bn. This makes it roughly six times as big as Pictet or Lombard Odier.

SBC recently revealed for the first time the profits of its private banking side. In the first half of 1996 it *earned SFr481m from private* banking which was more than the SFr483m earned by its SBC Warburg investment banking business. By contrast, the other two legs of SBC's business – domestic and the SBC Brinson money management division – earned less than SFr50m in total.

Apart from Ferrier Lullin, SBC operates a number of other private banks such as Bank Ehinger in Basel, Armand von Ernst in Berne and Adler & Co in Zurich. It has recently acquired Standard Chartered's private banking business as well as a substantial portfolio of private client relationships from Chase Manhattan and is on the look out for more acquisitions.

SBC's dependence on private banking is mirrored by the other big Swiss banks. However, they do not dominate the market in the same way that they dominate other parts of their business.

In addition to the Geneva private banks, and Zurich's Julius Baer and Bank J Vontobel, there are plenty of foreign competitors ranging from Mr Edmond Safra's Republic National Bank of New York (Suisse) to Coutts, the up-market private banking arm of National Westminster Bank.

Switzerland's private banking market may be huge but it is very fragmented. There are varying figures on its size. Republic National Bank of New York estimates that $2,300bn of the world's private wealth of $35,000bn is managed outside the country of origin. The Swiss Bankers Association, by contrast, estimates that banks in Switzerland alone manage assets of SFr2,300bn which gives it between 30 per cent and 40 per cent of the world total.

Meanwhile, Chase Manhattan recently estimated that the size of the global wealth market worldwide was $12,000bn and growing at 7.5 per cent in the western hemisphere and 11.5 per cent in Asia.

The strategies adopted by the various banks vary considerably. Mr Albert Gowen, a senior executive with Coutts, which is banker to Britain's royal family, says that UK-style private banking grew out of the basic provision of banking services for wealthy individuals. Asset management and trust services were added later. In Switzerland, on the other hand, private banking started with asset management and banking services came later.

Meanwhile, the clientele is changing. Some banks, such as Coutts and Julius Baer, still stress the personal service aspect. This not only involves counselling customers about the state of the stock market but also providing others with advice on everything from the best golf club to arranging a home help if an elderly customer runs into problems. It is time consuming and expensive, but it builds up a loyal customer base.

Then there are the US banks, such as Chase Manhattan and Goldman Sachs, which are chasing a different part of the market. They believe that there is a substantial shift of wealth taking place as older generations hand over their fortunes to their children.

In the past, parents were concerned about maintaining the security of their money and were happy to leave it ticking up interest on a time deposit, safely hidden from the prying eyes of the tax authorities.

The younger generation of private banking customers often have a completely different set of financial priorities.

Many have been to business school and sometimes know almost as much as the bankers about complicated financial products.

Chase Manhattan estimates that between $7,000bn and $10,000bn will be transferred within families over the next 25 to 30 years in the US alone.

At the same time, the geographical source of Switzerland's private bank customers is changing. The rapid growth of the eastern Asia economies is generating a growing supply of billionaires with different attitudes and different financial demands.

Up to now Switzerland's private bankers seem to have been able to hold on to their market leadership surprisingly well. In the old days, the subject of investment performance was rarely mentioned, primarily because there was none. Now Swiss private bankers spend hours comparing their investment performance with the best on the international stage.

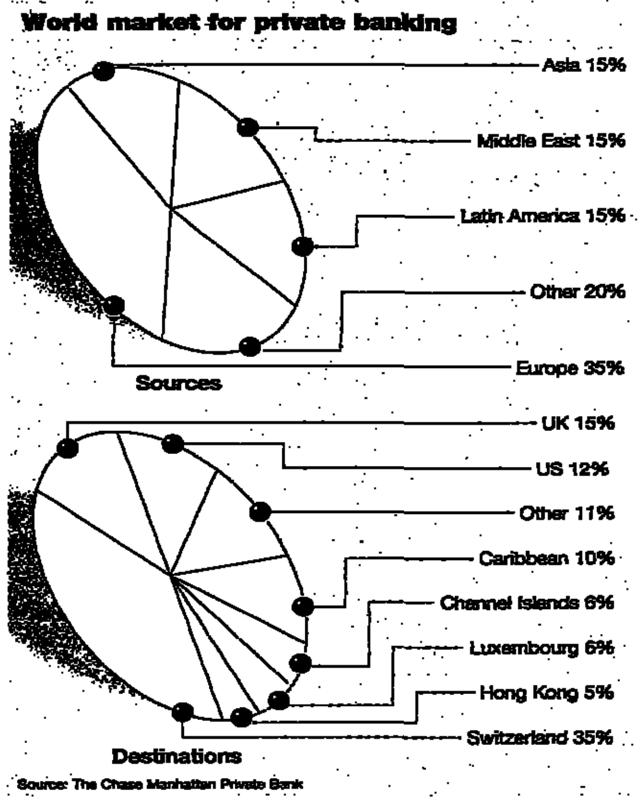
Nevertheless, Mr Günter Woernle, author of the Wernlin directory of private banking and asset management in Switzerland, is less optimistic than some about Switzerland maintaining its market share. He believes that the trend towards more wealth being accumulated by institutions favours the money managers in London and New York.

Switzerland's advantages – political and financial stability plus bank secrecy – still make it an attractive private banking market. But Mr Woernle thinks that its rate of growth will start to slow.

Rudolph Baer: his bank is keen to strengthen its position

Switzerland's bigger private banks, such as Lombard Odier, are thriving

World market for private banking



Source: The Chase Manhattan Private Bank

Swiss private bankers

	City	[illegible]
Pictet	Geneva	[illegible]
Lombard Odier	Geneva	[illegible]
Darier Hentsch	Geneva	[illegible]
Bank Sarasin	Basel	[illegible]
Rahn & Bodmer	Zürich	[illegible]
Bordier	Geneva	[illegible]
Mirabaud	Geneva	[illegible]
La Roche	Basel	[illegible]
E Gutzwiller	Basel	[illegible]
Baumann	Basel	[illegible]

PROFILE **The banking ombudsman: Hanspeter Häni**

An uncomfortable job

Mr Hanspeter Häni, 46, has one of the most uncomfortable jobs in Swiss banking. As Switzerland's banking ombudsman, he not only has to deal with a regular stream of customer complaints about Swiss banks but he has also recently become the first point of contact for relatives of holocaust victims who are trying to track down assets which may still be hidden in Swiss banks.

Mr Häni, a former banker, has had more than 900 inquiries since the Swiss banks decided last year to channel all future inquiries into claims on dormant accounts through his banking ombudsman's office in Zurich. He gets between five and 10 inquiries a day from relatives of holocaust victims. This is roughly four times as many inquiries as he gets in his traditional role of fielding complaints from irate customers of Swiss banks.

However, he is anxious not to raise false expectations. He gets numerous letters along the lines of "I remember my father telling me that he had deposited money in a Swiss bank. Unfortunately, I do not know which one. . .", or "I remember my father saying that he had gone to Switzerland. . ."

He does not hold out much hope of tracing assets on the basis of such flimsy evidence. Nevertheless, he responds to every letter by sending back a standard questionnaire in either German, French or English. This outlines the basic information needed to conduct a search and the cost: SFr100 (it used to be SFr300).

The Ombudsman's office requires evidence that an account, custody account or safe-deposit box could exist and also the name of the person involved. It also requires copies of official documents such as passports, birth certificates, testator's death certificate (if available), wills or other deeds of succession.

Although the material required sounds rather daunting, Mr Häni tries to be flexible. If someone can prove that he is a grandson of a deceased dormant account holder, for example, then that may be enough to trigger a search.

It is mostly impossible for descendants of the victims *of racial, religious or* political persecution during the Nazi regime to provide the requisite documents. Therefore, substitute documents or personal statements can be submitted with appropriate explanations. The names and date of birth of the account holder are two most important items of information.

Häni: more than 900 inquiries

Mr Häni stresses that his office is only an intermediary between the authorised persons and the banks. His job is to assemble a list of names which he then circulates to *each of Switzerland's* 400-plus banks. He has just completed his third mailing.

The banks are then obliged to check their records. If a bank finds one of the names on its records it then takes over responsibility for dealing with the claimant and may demand extra information. If nothing has happened after two months from the date of sending out the circular, Mr Häni's office informs the claimant that the search has been unsuccessful. To date, he has issued about 300 negative responses.

The process of identifying whether an account exists should not be too difficult. One of the popular misconceptions is that Swiss banks control large numbers of anonymous numbered bank accounts. The Swiss Bankers Association says that there are no anonymous accounts at Swiss banks and a bank has always to know the name of its client and, in case of doubts, to identify the beneficial owner.

Every bank should have the names on file of the person who opened a numbered bank account. If an account has never been closed, the name remains on the files.

The Swiss Bankers Association also stresses that Swiss bank secrecy laws should not obstruct the search for assets in any way. All that is needed is proof of identification so that the claimed assets are not handed over to the wrong person. However, some searchers believe that the bank secrecy laws do present a more serious obstacle because Swiss banks are not even allowed to confirm that a certain person is *not* a customer.

Mr Häni is under considerable pressure to show some positive results. He only has a staff of five (including part-timers) and his search procedures need refining. Once the names have gone out to the banks, Mr Häni's responsibility ends, which raises the question of who is responsible for making sure that the banks discharge their obligations properly. *Technically, it is the* responsibility of the Swiss Banking Commission.

However, Mr Häni wants the banks to communicate the results of their searches so that he can publish details of his success rate in helping people track down dormant bank accounts belonging to deceased relatives. Within the next few weeks, he plans to make his first public progress report and hopes that he will be able to announce some positive results.

The ombudsman's address is: Seestrasse 7, Postfach, 8027, Zurich.

William Hall

Official inquiries into Nazi gold

The following official investigations into Nazi gold and other looted assets in Switzerland are being established:

- Swiss banks, in conjunction with the World Jewish Congress and other Jewish organisations, announced in May 1996 the formation of committee of eminent persons led by Mr Paul Volcker, former chairman of the US Federal Reserve.

Swiss representatives: Klaus Jacobi, former state secretary; Curt Gasteyger, professor of international politics, Geneva; Professor Alain Hirsch, former vice-president of the Swiss Banking Commission; Hans Bär, private banker; Peider Mengiardi, a leading Swiss accountant.

Jewish representatives: Abraham Burg, chairman of the Jewish Agency; Reuben Beraja, chairman of the Latin American Jewish Congress; Ronald Lauder, treasurer of the World Jewish Congress; Zvi Barak, chairman of the Jewish Restitution Organisation: Israel Singer, general secretary of the World Jewish Congress.

Terms of reference: to verify the search by the Swiss Bankers Association for unclaimed assets *belonging to victims of the* holocaust.

- The Swiss government agreed in September 1966 to conduct a full investigation into the whereabouts of so-called looted assets which were stolen by the Nazis and deposited in Switzerland during the second world war.

The investigation will cover the extent and fate of assets of all kinds which were transferred to banks, insurance companies, attorneys, notaries, fiduciaries, asset managers and any others.

It will also cover the wartime role of the Swiss National Bank and any post-war measures covering unclaimed assets taken by the Swiss government.

Composition of the panel of experts yet to be determined.

Timescale: up to five years.

- US State Department announces earlier this month an investigation to be led by *Mr Bill Slaney, chief historian,* into Nazi gold in Swiss banks. It will undertake a "thorough and immediate study" of the retrieval and disbursement of Nazi assets after the second world war.

The review will focus on US diplomatic efforts in the post-war period, including US diplomatic contacts with the Swiss government. Aim: to provide a greater understanding of the role played by the US and other Allies.

Timescale: two to three months.

Findings will be published.

Insurance: by Trevor Petch

Revolution under way

Recent changes are likely to transform the shape of the market

The Swiss spend more on insurance than anybody else in Europe: an average $3,587 a head in 1994, second only to the Japanese at $4,850.

The industry is also highly concentrated, the top five life insurers accounting for about 80 per cent of the market and the top five non-life insurers about 70 per cent.

There is a sharp contrast between the life and non-life insurance sectors. In 1995, total life premium increased by 10.9 per cent from SFr21.2bn to SFr23.4bn as low interest rates stimulated demand for new savings-linked insurance, especially single premium products – although it also stimulated the tax authorities to take a harder look at the tax deductions traditionally available for personal provident savings.

In non-life, on the other hand, there was barely any growth at all, the total increasing from SFr13.2bn to SFr13.3bn. This year, some observers expected that non-life premium might even fall in cash terms for the first time since the second world war.

The reason is a revolution which is likely to transform the shape of the market. Motor liability insurance, the largest category of non-life insurance, was opened to individual price competition from January 1, and for a desirable client, some leading companies have been offering prices more than 25 per cent below what would have been asked in 1995.

Competition has entered the market with a vengeance as insurers seek to gain market share. For the first time, they are free to set their own terms and conditions, and there are doubts that every company has got its pricing right.

If that were not enough, the two leading insurers, Winterthur with a motor liability market share of close to 25 per cent, and Zurich with about 22 per cent, have both set up telephone sales operations offering large discounts to selected customers. Zurich's operation, set up in mid-1994, has been in operation for longer, but Winterthur has extensive telephone sales experiences including Churchill Insurance in the UK.

Until very recently, almost everything about Swiss insurance which could be controlled, was controlled. Policy conditions had to be approved by the supervisory authorities; premium rates were set by cartels operated by the insurance association; and foreign insurers were subject to various types of discrimination.

Real change did not take place until January 1 1993, when after 15 years of negotiation a bilateral agreement on insurance between Switzerland and the finally came into force. This removed discrimination against European Union insurers seeking to set up in Switzerland, and introduced EU-style monitoring of insurers on the basis of financial solvency rather than the traditional close control over day-to-day operations.

Switzerland also abolished policy and tariff approval over voluntary non-life insurances during 1993, and the life insurers' association stopped requiring members to adhere to its price cartel.

Nevertheless, the Swiss market still remains more tightly regulated than those of its EU neighbours. Cross-border insurance is still not permitted, protecting the Swiss insurance industry's position in cover of industrial and commercial risks in particular.

Swiss insurers themselves, on the other hand, draw just under 40 per cent of their total income from their home market compared to 42 per cent from EU countries, where they benefit from the single market through subsidiaries established in EU member countries.

Foreign companies still account for only about 15 per cent of the whole Swiss insurance market but are beginning to establish a better foothold.

In 1994, Swiss Reinsurance, the world's second-largest professional reinsurance company, abandoned its strategy of developing primary insurance operations in parallel, giving German giant Allianz the opportunity to acquire its Elvia subsidiary, the market number five. General of Italy has also bought Fortuna, one of the rare Swiss insurers to be offered for sale.

Almost uniquely in Europe, terms and conditions for life and health insurance, as well as all compulsory classes except motor liability, still acquire supervisory approval. In most of Switzerland, these compulsory classes include domestic fire insurance.

In 19 of its 26 cantons, all houses are required to be insured with the local public sector insurer, and in Vaud and Neuchatel, these cantonal insurers have a monopoly over household contents insurance as well. Private sector insurers have for many years sought to gain access to these markets, so far with little success, but this year the Federal Price Bureau did order reductions in premiums in some cantons.

Sale of insurance over bank counters has so far made little headway compared with some other European countries. The pioneer has been the Zurich Group, which has had a distribution agreement with Swiss Bank Corporation for life business since 1992, extended last year to non-life.

Last year, Winterthur signed a distribution agreement for life with Credit Suisse First Boston with which it will also create a joint occupational pensions company. Together with Swiss Re, the two also participate in joint ventures aimed at developing innovative financial and insurance products.

The year 2000 is the target date for completion of full EU-style insurance legislation, due to be submitted to the Federal Council at the end of 1997 and to parliament before the end of 1999. Implementation, however is likely to be slower still, and linked to any renewed Swiss application for EU membership or a further bilateral agreement, which the EU has so far resisted.

Trevor Petch is consulting editor of the Financial Times newsletter World Insurance Report

Swiss banks overseas: by George Graham

Big Three have expanded

There are still considerable differences in culture between CS, SBC and UBS

Switzerland's leading banks realised long ago that their domestic market was too small for their ambitions, and began to develop their international operations.

Recent restructurings at the Credit Suisse and Swiss Bank Corporation groups, however, have made it startlingly clear just how dependent the Swiss banks have become on their overseas earnings.

Both groups split their activities into four areas: domestic retail banking, international private banking, international fund management, and international corporate and investment banking.

The aim is to publish financial information separately for these divisions, and the first indications from SBC reveal how important the three international divisions will be to the overall results.

SBC's management accounts for the first six months of 1996 show that private banking contributed net profits of SFr481m, and SBC Warburg, the London-based investment banking division, SFr433m, compared with just SFr35m from SBC Brinson, the group's asset management arm, and SFr14m from domestic banking.

Admittedly, Swiss domestic banking has been going through a rough patch, with higher-than-usual losses on real estate, in particular.

But even in its medium-term projections of results in 1999-2000, SBC still expects investment banking and private banking to contribute as much as three quarters of group profits.

While detailed breakdowns are not yet available from Credit Suisse or Union Bank of Switzerland, a similar picture is expected to emerge.

Although all of the big three Swiss banks have expanded their overseas investment banking, broking and fund management activities by a combination of acquisition and organic growth, considerable differences show up in style and culture.

The CS group was ahead of its competitors in developing an investment banking business. In 1978, Credit Suisse formed a joint venture with First Boston, a US investment bank; in 1988, First Boston was subsumed into the joint venture.

After this year's restructuring, Credit Suisse First Boston now includes not only the existing investment investment banking businesses built up under the CSFB name, but also the international corporate business of Credit Suisse, along with its Swiss investment banking.

CSFB's position as a member of the US "bulge bracket" gives it an international spread unique among European investment banks. With the failure of the US Congress once again to repeal the Glass-Steagall Act, which places restrictions on the blending of commercial and investment banking in the US, CSFB's comparative advantage, protected by grandfathering provisions, is likely to remain for a while.

But the firm has had its weaknesses, notably in its European stockbroking capability – something which would have been addressed had Credit Suisse's merger overtures to rival UBS earlier this year been accepted.

While it has proved it can win mandates on equity issues, it lacks the sales, trading and research which would secure its position as a leading European equities house. Profits have been lower than its investment banking peers, too, although Credit Suisse Financial Products, the independent derivatives operation which will be grouped into the new Credit Suisse First Boston, is a highly respected and profitable operation.

Mr Allen Wheat, chief operating officer of the new CSFB, believes the combination will be stronger than its components.

"SBC Warburg, Deutsche Bank, and JP Morgan are all using their strength and their muscle. We were sitting there with just $1.8bn of capital, trying to compete with them. You either shrink or you really have to grow," he said.

> UBS's dominant instinct remains financial caution

If the First Boston connection has shaped the character of Credit Suisse's international investment banking operations, UBS's defining move overseas was the acquisition of the London stockbroker Phillips & Drew.

That has left UBS with a particular strength in European equity broking and in institutional fund management.

Its PDFM unit is one of London's biggest pension fund managers, and at the moment one of the most controversial, because of its decision this year to keep a large proportion of its clients' money in cash because it believed the equity market to be overvalued.

In the US, Glass-Steagall would still make it difficult for UBS to acquire a large investment bank, but it has been making up over the past year with some aggressive recruiting. Appointments included Mr John Costas, head of US bonds at CSFB.

But where CSFB's culture is heavily impregnated with the trading and entrepreneurial reflexes of New York, it is clear that UBS's dominant instinct remains the financial caution of Zurich – a caution that has helped to preserve its AAA credit rating.

SBC, meanwhile, had been something of a laggard, but its 1990 acquisition of O'Connor and Associates, the Chicago-based derivatives house, gave it an intellectual injection whose changes have been far-reaching.

The sophisticated trading and risk control strategies of O'Connor whizzkids such as Mr David Solo and Mr Andy Siciliano have permeated the group. The influence of Mr Robert Gumerlock, another O'Connor mathematician who is now head of risk control at group headquarters, was widely perceived in SBC's innovative move this year to actuarial provisioning for its credit risks.

O'Connor's trading skills have been most felt at S.G. Warburg, the UK's largest independent investment bank before SBC took it over in 1995.

The merger of the SBC and Warburg cultures has not been without difficulties. Many in the corporate finance department, particularly, have left, and in some cases they took their client companies with them.

But the corporate finance business has not been as badly hit as some of the worst rumours suggested. In fact, SBC Warburg maintained its position with second place in the *Acquisitions Monthly* ranking of advisers on UK public company takeovers in the first nine months of this year with 11 deals worth £5.2bn – behind a surprising UBS, which advised on 14 bids worth £5.5bn.

And SBC Warburg's broking business has powered ahead since the merger, helped by improvements to its once shaky back office. Its UK equities business has an estimated 15-16 per cent of London marketmaking volumes, compared with 13 per cent for the two firms before they merged.

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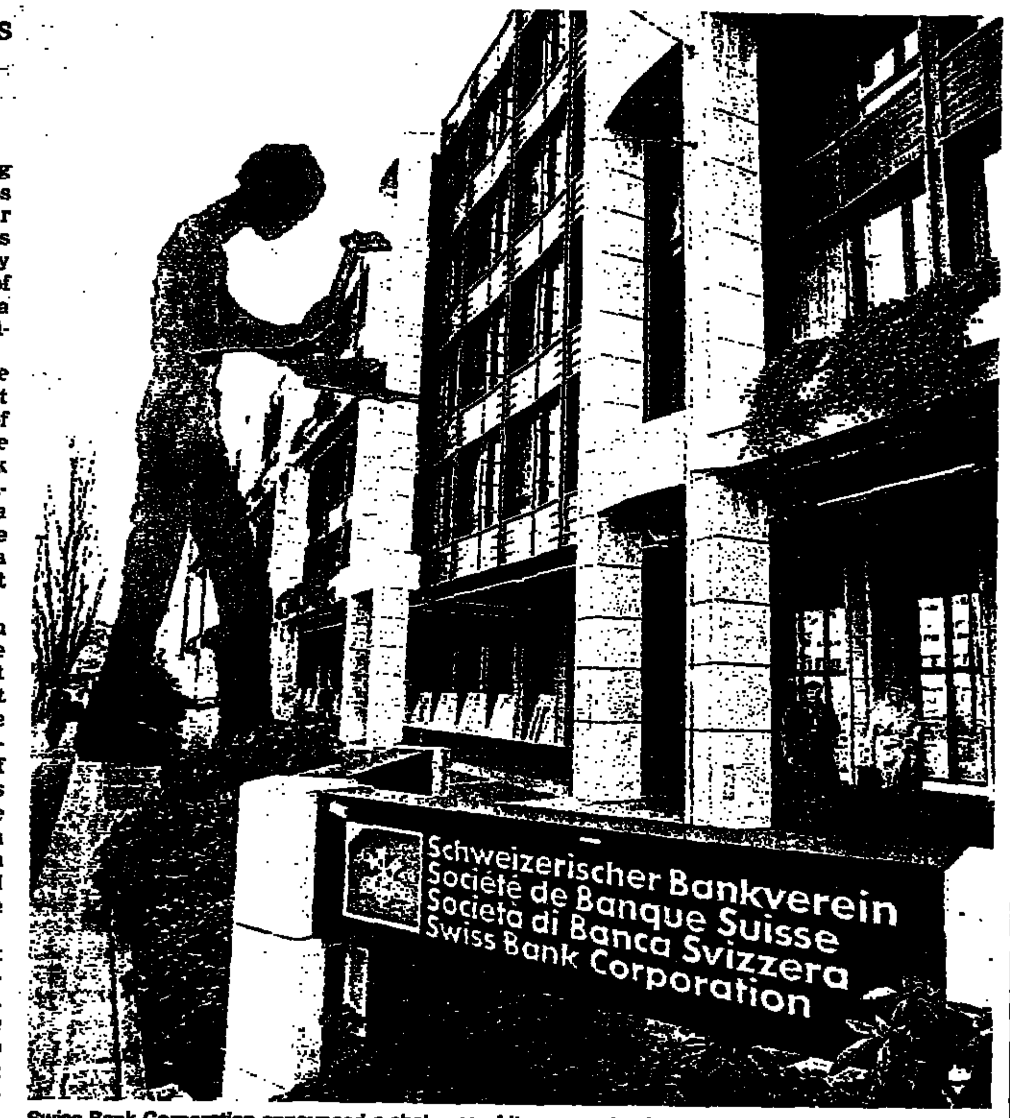
■ **Asset management:** by Norma Cohen

Critical developments

A fresh era of competitiveness is encouraging the polarisation of the business



Swiss Bank Corporation announced a shake-up of its corporate structure *Picture: Jesper Dijohn Pressefoto*

Fund management has long been a pillar of the Swiss banking industry. For decades, discreet Swiss bankers have quietly invested billions of dollars of clients' money, garnering a reputation for safety, sobriety and secrecy.

But in recent months, the leading Swiss investment houses are showing signs of disquiet. Two of the three largest banks, Swiss Bank Corporation and Credit Suisse, have announced a shake-up of their corporate structure which includes a reorganisation of their asset management divisions.

Credit Suisse's move in July effectively splits the fund management operations into two distinct corporate entities. These are Credit Suisse Private Banking, which is to be part of the bank's domestic Swiss activities, and Credit Suisse Asset Management, an autonomous division within the group's institutional banking arm, Credit Suisse First Boston.

Credit Suisse has not yet talked about the reorganisation's rationale, except for a pronouncement that: "The new structure responds to increasing globalisation and the needs of the group's markets".

Credit Suisse's competitor, SBC, which announced an almost identical structural reorganisation in May, cites the changing marketplace as part of its rationale. It has created a global institutional business, SBC Brinson, built around its US acquisition, Brinson Partners, which has an expertise specifically in international equities. It also formed a domestic business which covers the private client asset management divisions.

That changing marketplace, analysts say, reflects two critical developments. First and foremost, a new Swiss pensions law requires any employer of three people or more to create an occupational pension scheme. This has spawned a large number of schemes and, perhaps more significantly, has encouraged the managers of some existing schemes to think harder about the investment returns needed to provide benefits. And because equities have offered higher real returns than bonds, fund managers need to demonstrate their expertise in that area as well.

"Because of the introduction of compulsory pensions (in 1986), Switzerland has become one of the most important asset management centres in the world," says Mr Gabriel Herrera, managing director of Swiss institutional asset management at SBC.

"Plan sponsors are under heavy pressure," says Mr Dominique Ammann, partner in a pensions consulting firm which bears his name. The growth of so-called defined contribution schemes in Switzerland – schemes whose ultimate benefits reflect combined contributions and investment returns – means that employers wishing to provide reasonable retirement income at low cost need higher rates of return.

Cheese-making in Toggenburg. Pension laws have changed

And these employers have not been blind to the far more attractive rates of return achieved by UK and US investment professionals who have historically tilted their portfolios in favour of equities. Still more, the Swiss have noted the enhancement that international diversification of investments, particularly equity investments, can bring to a portfolio.

As a result, several non-Swiss banks, particularly US-based State Street Bank and Bankers Trust, have been able to make inroads into the tight Swiss market in the past two years.

"Three years ago, it wouldn't have been worth suggesting to our clients that they consider a foreign manager," says Mr Ammann. "Two years ago, they at least began to listen," he says, adding that many clients now are very receptive to the idea of a foreign manager for at least a portion of their portfolio.

Some data from Micropal, which measures the performance of retail investment funds, offers some interesting insights into the strengths and weaknesses of the domestic Swiss banks' track records in foreign equities.

Credit Suisse's Swissac domestic equity fund ranks in the top quartile of similar funds over one-year, three-year and five-year periods and its bond funds show similarly good performance. But its CS Tiger Fund, a Pacific Basin emerging markets fund which is one of the world's largest, ranked third out of four over the past three years and fifth out of six in the year to June 30, 1996.

Mr Chris Poll, Micropal's chairman, says that the weaknesses of Swiss operators generally in international equities is likely to become their Achilles heel. Already, he says, some domestic Swiss banks are contracting out their international fund management services to foreign banks under so-called "white labelling" agreements.

"Swiss banks have operated in a closed-shop environment. But wealth is becoming more international." Mr Poll estimates that 50 to 70 per cent of Swiss assets are from non-domestic clients and these view their wealth as mobile. If the Swiss banks cannot offer competitive investment returns in foreign markets, the money will leave home and move abroad, he says.

Another factor increasing competition in the Swiss market, some bankers privately say, is the recent co-operation which Swiss authorities are giving to law enforcement officials in other countries is encouraging so-called hot money to move elsewhere. So Swiss bankers see fewer clients whose goals are the traditional simple one of anonymity and capital preservation.

This new competitiveness, Mr Herrera argues, is encouraging the polarisation of the Swiss asset management business. "Either you are a competent local manager or you are a truly global player," he says. One indication of how competitive the market has become is that the Swiss Bankers Association has awarded InterSec, the US-based pension consultancy, a contract to measure the performance of individual Swiss funds, although none of its data may be released publicly. Also, from next January, the association has agreed a format for calculating performance, which bankers may use in their marketing materials.

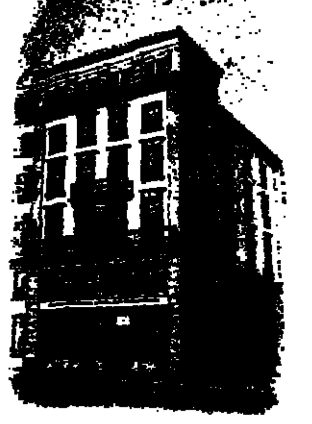
Another indication of the growing competitiveness is the use of professional consultants to help institutional clients choose a manager.

Mr Chris Nowakowski, president of InterSec, estimates that as many as two-thirds of institutional clients now use a consultant for at least a portion of their funds. This has allowed foreign fund managers to make first inroads into the traditionally closed Swiss market.

However, no one is suggesting the Swiss banks risk losing pole position in their home market any time soon. For one thing, restrictions on pension investments require heavy asset allocations in Swiss bonds and equities, the sectors in which the banks do best.

Second, the banks are demonstrating their determination to fight back by buying in expertise they do not already have. "If only the Swiss could combine their reputation and their name with ability and performance," says Mr Poll wistfully. "Then they could have this market sewn up." The only question is whether they have left it too late.

Headquarters of Republic National Bank of New York (Suisse) S.A. in Geneva.



Future building of Republic National Bank of New York (Suisse) S.A. branch in Zurich

■ **Who's who in Swiss banking:**

New generation at the helm

There has been a changing of the guard in the boardrooms of the big three Swiss banks and the Federal Banking Commission. **William Hall** introduces the new generation of Swiss bankers and bank supervisors:

Mr Marcel Ospel, 46, chief executive of Swiss Bank Corporation, runs the smallest of the big three Swiss banks. He is much younger than his two predecessors, Walter Frehner and Georges Blum, and has been the quickest to make his mark internationally.

Over the past few years, SBC has been transformed by a series of corporate moves, starting with the acquisition of O'Connor, a Chicago options and derivatives specialist, which have Mr Ospel's fingerprints all over them.

Mr Ospel joined SBC's planning and marketing department in 1977, after graduating from Basel's school of economics and business administration.

Within three years he had been posted overseas, first in London and then New York.

In 1985, he left to join Merrill Lynch, a US rival, and help set up its Swiss investment banking business. But within a couple of years he was back at SBC as head of securities trading and is credited with turning SBC into one of the top banks in the international capital markets.

Last year's £860m purchase of S G Warburg, the UK merchant bank, was his idea. If it works out, then Mr Ospel will be credited with one of the most astute moves in SBC's history.

If it does not, then SBC could be vulnerable to a takeover.

Mathis Cabiallavetta, 51, of Union Bank of Switzerland, is the oldest of the new bunch of chief executives and has the most conventional banking pedigree.

He joined UBS's economic research department in 1971 and has never worked for anybody else but UBS. But he should not be underestimated. He is a different calibre from many of UBS's previous chiefs who often seem to have been selected on the basis of their seniority in Switzerland's part-time army.

There is no question that Mr Cabiallavetta, a mere enlisted infantryman, has been chosen for his banking prowess rather than his military connections.

In 1979, he was made head of UBS's foreign exchange operations and most of his career has been spent on the trading side.

He is also more international than his predecessors. When he was aged 20 he moved to Canada and went to university in Kingston, Ontario, and Montreal, Quebec.

UBS-watchers hope Mr Cabiallavetta will be able to defuse UBS's long-running legal row with Mr Martin Ebner, the corporate activist, which is blocking the introduction of a streamlined share structure.

However, in the short term his most pressing challenge is to produce a convincing restructuring plan for UBS's domestic business.

Lukas Mühlemann, 46, who takes over as chief executive of Credit Suisse at the end of the year, is the big unknown. He is not a banker and has spent most of his life as a management consultant.

He started as a systems engineer with IBM, did an MBA at Harvard, and joined the McKinsey management consultancy in 1977. For the next 17 years he advised financial institutions on their strategic and organisational problems.

In 1994 he was hired as chief executive of Swiss Re, the world's second-biggest reinsurer. Within a year he had sold Swiss Re's direct insurance operations and masterminded a massive re-rating of Swiss Re's shares. Now, less than two years after he arrived at Swiss Re, he has been offered the job of sorting out Credit Suisse.

He is staying on as deputy chairman of Swiss Re but his rapid exit from its executive suite, shortly after its ambitious £1.75bn purchase of a UK reinsurer, has raised concerns that he is abandoning ship.

Credit Suisse has already announced its own big restructuring and a new top management team before Mr Mühlemann has even arrived. The last thing that Credit Suisse needs now is a new chief executive who wants to rethink its corporate strategy yet again. Which raises the question of what is left for Mühlemann to do.

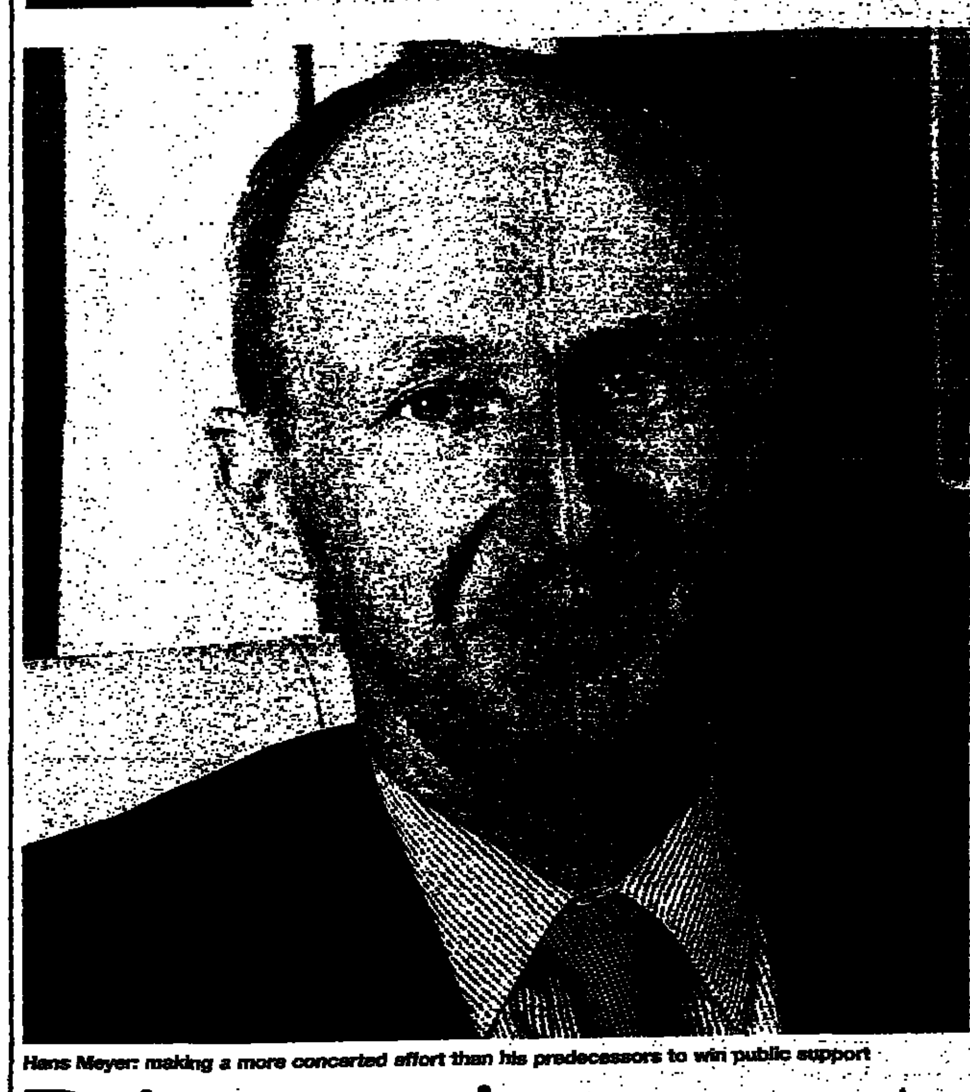
Daniel Zuberbühler, 48, the new director of the Federal Banking Commission in Bern, is one of the world's more unusual bank supervisors. For a start he has a sense of humour and a relaxed dress code – blue jeans and open-necked shirt – which would be frowned upon by the Bank of England or Germany's Bundesbank.

Bearded Mr Zuberbühler cycles to work and could easily be mistaken for an ageing political activist, which he once was, rather than Switzerland's chief bank supervisor. However, his easygoing style is deceptive.

He has been a bank supervisor for 20 years and has done most of the jobs in the Federal Banking Commission. He does not belong to the school of supervisors who believe that *every new banking crisis should result in a new regulation*. Nevertheless, his regulatory empire is expanding now that responsibility for supervising Switzerland's securities industry is being transferred from the cantons to the federal level.

With a staff of 54, the Federal Banking Commission faces the same problem as other bank supervisors – an increasing workload and limited resources. Mr Zuberbühler appears to relish his role as the man responsible for making sure that Swiss banks behave themselves.

INTERVIEW Hans Meyer, Swiss National Bank chairman



Hans Meyer: making a more concerted effort than his predecessors to win public support

Drive to win support for bank's actions

Mr Hans Meyer, 60, who took over as chairman of the Swiss National Bank in May, faces a tough task.

The Swiss economy is locked in its longest period of stagnation since the 1930s; uncertainties over the future of European monetary union threaten further upward pressure on an already over-valued Swiss Franc; and the Swiss National Bank is running out of policy options, having recently cut its official discount to a record low of 1 per cent.

However, Mr Meyer, an economist who joined the central bank's three-man governing board in 1985, thrives on the challenge.

Along with the two new members of the policy-making governing board – Mr Bruno Gehrig, 49, a former professor of business administration at St Gallen, and Mr Jean-Pierre Roth, 50, a central bank economist – Mr Meyer is making a more concerted effort than his predecessors to win public support for the central bank's actions.

The Swiss National Bank is much more independent than most central banks. It is not owned by the Swiss government but by a mixture of private investors (37 per cent) and local cantons and cantonal banks.

This has its advantages and disadvantages, especially when it comes to interpreting the central bank's official mandate of pursuing a monetary policy which is "in the interests of the country as a whole".

This vague wording, contained in the Swiss constitution, leaves the central bank vulnerable to attack when the economy stops growing as it has done since 1990.

Mr Nicolas Hayek, president of SMH, Switzerland's leading watchmaker, has been a vocal critic of the central bank's tight money policies in the past.

He claims that they have exacerbated the strength of the Swiss franc and substantially damaged Switzerland's manufacturing and tourism industries.

Mr Meyer admits that the Swiss economy is in "poor shape". It has the potential to grow at 2 per cent a year, yet has stagnated for the past five years.

However, he prefers to characterise Switzerland's current economic problems as "difficult" rather than "dramatic", and notes that over a 10-year period the economy has grown by an average 1.5 per cent a year; inflation has averaged 3 per cent; and unemployment 2 per cent.

"It is not brilliant but it is not a bad long-term average," says Mr Meyer.

Although Switzerland's unemployment rate of 4.6 per cent is higher now than it was in the 1930s, Mr Meyer does not believe that there is any comparison between the severity of Switzerland's current economic problems and those of 60 years ago.

Switzerland is a much wealthier country now and is running a huge balance of payments surplus. If it has a problem, it is in *coming to terms with its high standard of living*.

Mr Meyer believes that the current recession can be explained by the weak economic condition of Switzerland and its nearest trading partners, the "very pronounced" structural changes in Swiss industry, and the deep-seated problems of the construction, tourism, and agricultural industries which he sums up as the "legacies of the past".

"There is no question that it is going beyond what we have seen in the recent past," says Mr Meyer. But he is still inclined to believe that the current problems are not "fundamentally different" from those which went before.

"Sooner or later growth must come. We have good preconditions, low interest rates and inflation, and a lot of restructuring has been done".

Nevertheless, Mr Meyer's view of Switzerland's medium-term economic recovery prospects – a growth rate of between 1 and 2 per cent – suggests that the country's unemployment rate is unlikely to return to its previous enviably low levels of under 1 per cent.

Against this background, the Swiss National Bank had already been relaxing its monetary policy some time before Mr Meyer and his new team took charge.

Money supply has been growing well above its medium term target of 1 per cent a year. In August, it grew at an annualised 5.7 per cent.

"There is no question that we have become more liberal. We have come to the conclusion that the general economic situation has changed," says Mr Meyer.

Last month's cut in the Swiss discount rate, to 1 per cent, was designed to reinforce the central bank's view that the current low level of interest rates will persist "for some time to come".

Having cut interest rates to historically low levels, there is not much more that Mr Meyer can do on this score if the Swiss franc comes under a renewed bout of upward pressure in the foreign exchange markets.

In the short-term, the foreign exchange markets have reacted favourably to Switzerland's more expansionary monetary policy. But the upward pressure could return at any moment if there is the slightest hiccup in the progress towards European monetary union.

Any sudden appreciation in the Swiss currency could postpone yet again the long overdue recovery in the Swiss economy. However, Mr Meyer plays down the threat.

"Keep in mind that we have experienced a strong currency for a very long period of time," he says, noting that the Swiss franc has appreciated by an average of 1 per cent a year over the past decade. And while discussions over European economic and monetary union have added yet another layer of uncertainty, he stresses that the Swiss franc has always been vulnerable to foreign exchange movements outside Switzerland's control.

In this respect, uncertainties over the progress towards Emu do not pose any markedly different threat to the Swiss currency.

Nevertheless, the Swiss central bank is keenly interested in the longer-term outcome of Emu.

While the foreign exchange markets are focusing on which countries will meet the Emu convergence criteria in the short term, Mr Meyer has a much longer time horizon.

"The big problem is what happens over the next five to 10 years. That is where we have to concentrate our attention," he says.

Could there ever come a time when the Swiss franc would be pegged to the Euro?

Mr Meyer refuses to be drawn on this question, save to say that "one can always adjust to currency inflows if you are convinced that the country in question is following a policy which meets your own convictions".

"Since it is very hard to establish convictions about the future, there is much to be said for our policy of *trying to operate a policy of limited independence*," says Mr Meyer.

However, he admits that the Swiss National Bank's main concern about Emu is about its impact on the Swiss currency rather than its effects on the competitive position of the big Swiss banks.

"We are in a difficult situation. But it is not desperate," says Mr Meyer.

In the 1930s, Switzerland solved its economic problems by devaluing, but this is not an option now because there are no fixed exchange rates. Hence, if Switzerland were to face unexpectedly large currency inflows which threatened to snuff out the long-delayed economic recovery, it could try and reduce the upward pressure on the exchange rate by following an even more expansionary monetary policy.

However, Mr Meyer cautions that even if there is no risk of inflation round the corner "we have to take a two- to three-year perspective and you cannot totally exclude what happens to the aggregates in the meantime".

This leads to the atypically Swiss conclusion that Swiss National Bank policy over the next few years will be a form of "*muddling through*".

But then that is the essence of the best monetary policy.

William Hall

MEXICO

Paying for the peso

Managing the recovery has been complicated by political changes that have huge implications for the way Mexico will be governed in the next century, writes Stephen Fidler

Mexico has cleared up many of the dishes broken after its disastrous devaluation nearly two years ago. Now it must start paying for them.

The bill was high. The economy contracted by 7 per cent last year, and will not recover the ground lost until the end of next year at best. Wages will take even longer to recover. In a country where a million new workers a year enter the jobs market, a million jobs were lost. Unofficial estimates suggest open and hidden unemployment may amount to a quarter of the workforce.

An ensuing banking crisis will cost 12 per cent of this year's gross domestic product, according to estimates from the US credit rating agency Standard & Poor's – more than twice the sum received when the banking system was privatised in 1991-92.

Managing the economic recovery has been complicated by political changes occurring both by design and default, that have huge implications for the way Mexico will be governed in the next century. Mexico has the oldest surviving system of one-party rule in the world, and presidents from the ruling Institutional Revolutionary Party (PRI) or its predecessors have run the country since 1929.

Rising urban and rural violence – some politically motivated, some connected to a thriving trade in illegal drugs and some driven by economic hardship and recession – strongly suggests the traditional authoritarian political system is no longer capable of resolving conflicts in Mexican society.

Sharply rising violent crime rates have turned personal security into one of the most important preoccupations of city dwellers. In rural areas, the number of traditional conflicts over land and other issues has risen. Meanwhile, the emergence of guerrilla groups for the first time in two decades, often in states where local administration has been corrupt and inadequate, have challenged the government.

Evidence of the institutional failure has come with the growing responsibilities of the military. While there are no signs that the armed forces are seeking an important political role, they now are, among other things, fighting anti-insurgency, involved in the war against drugs and running the customs police and the police force in Mexico City.

Since assuming office in December 1994, President Ernesto Zedillo has promised to tackle this failure by moving away from the authoritarian political tradition and towards democracy and the rule of law.

This would be achieved, he has said, by building a more balanced relationship between the three powers of the state; by settling a reform that would have all the main political parties agreeing on transparent rules for elections; and by decentralising power from Mexico City to state and local governments.

The electoral reform has made progress among political parties, and new federal electoral rules could be finalised shortly. They would then be in place for the mid-term congressional elections next July, when for the first time elections for mayor of Mexico City will be held.

There have also been some signs of a more independent judiciary and legislature. For example, government proposals for the reform of the social security system were altered by Congress, while the government was forced to abandon plans to privatise secondary petrochemicals by opposition from the PRI that would have assured a legislative defeat.

However, there remain limits to the freedom of the legislature. Government pressure, for example, succeeded last month in closing down a congressional corruption investigation into the activities during the previous administration of Conasupo, the state marketing board for staple foods.

One of Mr Zedillo's most important pledges was to extricate the presidency from the internal machinations of the PRI. In doing this, he said he would surrender the traditional power of choosing the party's candidates for high office, including, most important of all, the presidency.

Taking him at his word, the PRI national assembly last month agreed a set of rules for the prequalification of candidates that would have excluded Mr Zedillo himself as well as his three predecessors. The rules mean only Emilio Chuayffet, the interior minister, and Silvia Hernández, the tourism minister, of the current cabinet are eligible to be the PRI candidate for the presidency in the year 2000.

The assembly was widely characterised as the revenge of party traditionalists against the technocrats, such as Mr Zedillo, who have dominated Mexican governments for two decades. Its decision illustrates a predicament for Mr Zedillo: the more he allows power to devolve to others as he has pledged, the more difficult it becomes to guide events in the direction he wishes.

Mr Zedillo's budget stringency and his push for cleaner elections and more transparent party financing has frustrated some in his own party and is regarded by some party loyalists as increasing the PRI's difficulties in next year's mid-term elections. Moreover, Mr Zedillo, most of his cabinet and his economic policies are associated with the real and perceived failures of the previous administration of President Carlos Salinas.

Mr Salinas, now living in exile in Ireland, is popularly held to have deceived the population with his market reform programme and his successful push to bind the country into the North American Free Trade Agreement with Canada and the US. As such, the Salinas link to so-called neoliberal policies, such as privatisation, has made the pursuit of similar ends by the current government more difficult.

But the Salinas legacy is more complicated than that. Two 1994 assassinations, including that of the PRI's first presidential candidate, Luis Donaldo Colosio, have not been resolved to public satisfaction. And the former president's brother, Raúl Salinas, has been jailed on murder and illicit enrichment charges. He denies charges of the murder in 1994 of he PRI's secretary general, José Francisco Ruiz Massieu, and of illegally amassing at least $120m in foreign bank accounts.

In this complex equation, the element that has moved most rapidly in Mr Zedillo's favour has been the economic recovery. Growth should be close to 4 per cent this year, faster than any forecast suggested a year ago. The government officially expects growth of 4 per cent or more next year, and perhaps 5 per cent the year after.

However, most of the population has yet to feel much benefit. Real wages have started to rise but are unlikely to recover their 1994 level until almost the turn of the century.

It is against this background that government, business and the trade unions will soon start negotiating the annual *pacto*. With the exchange rate and contractual wage increases now out of the negotiations, only the minimum wage and some public sector prices are included. "Fortunately, every year there is less to agree," says Guillermo Ortiz, finance minister.

The recovery has also been for the most part narrowly confined to the export sector, which now accounts for well over a quarter of GDP.

According to Luis Rubio of the Centre for Development Studies in Mexico City, some 600 companies represent 80 per cent of all Mexican exports. Some 4,000 of the 15,000 exporting companies could be said to be doing well. "The problem of the large majority of businesses is that they don't know what to do or don't know how to do it." They do not even have the discipline of a working bankruptcy law.

The lack of a large network of functioning middle-sized businesses explains Mexican exporters' heavy dependence on imports. Mexico needs to develop incentives to build an industry to serve exporters and broaden the benefits of export success. It also needs, says Mr Rubio, a renewed emphasis on deregulation.

The underlying message is that some of the structural problems at the root of the financial crisis are still in place. Mexico's current political transformation may make it more difficult to resolve these issues in the near term. Over a longer period, however, it should help. According to Santiago Creel, a member of Mexico's Federal Electoral Institute: "What's needed is a new institutional structure that generates confidence among investors."

There is trading ... and then there is trading. A village market and the stock exchange in the capital city illustrate two of the faces of Mexican business

■ **Economy:** by Stephen Fidler

Fine time for crisis

The devaluation dilemma: an uncompetitive forex rate vs a consumer boom

If Mexico had to have a financial crisis, it picked its moment well. "With high international liquidity, low US interest rates and US growth, Mexico couldn't have had a financial crisis at a better time," says Rogelio Ramirez de la O. of the Ecanal consultancy in Mexico City.

The economy is picking up faster from recession – and the 7 per cent collapse in output last year – than most forecasters expected. Growth should exceed 3.5 per cent this year. Official forecasts suggest it will rise to 4 per cent or higher next (with inflation of 15 or 16 per cent and a current account deficit of no more than 2 per cent of gross domestic product) and 5 per cent in 1998.

A rise in oil prices has helped the government keep its budget in balance this year in spite of weakening tax revenues. The favourable external environment has made it easier to issue bonds abroad, thereby allowing early repayment of most of the money lent during the 1995 US-led bailout and pushing into the future repayments of debt which otherwise bunched awkwardly from 1997 onwards.

It has also encouraged a sharp rise in exports from Mexico that was further spurred by companies turning away from their depressed home market to look for markets abroad. Total exports, including those from the country's in-bond maquila assembly plants, now account for between 27 and 29 per cent of gross domestic product, compared with 17 per cent in the first quarter of 1994.

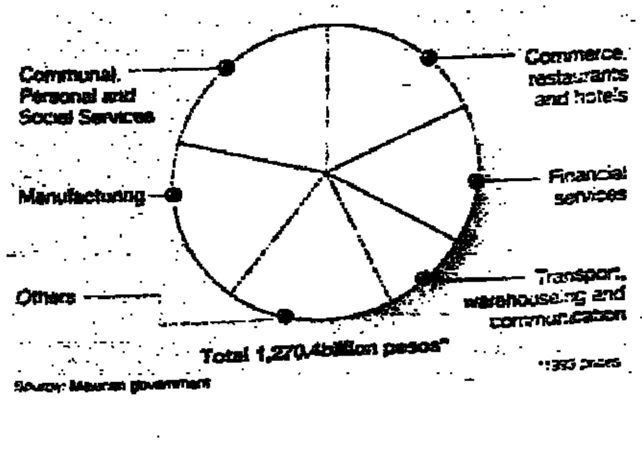
More recently, however, export growth has been slowing and imports rising rapidly – particularly when the maquila industries are excluded – bringing new questions, among other things about the exchange rate, which has been unusually strong. According to Alfredo Thorne of JP Morgan in Mexico City, a pick-up in domestic demand has both encouraged imports and led some exporters to shift their attention back to the domestic market.

This raises a dilemma typical after a devaluation. Should the government encourage continued depreciation, thereby ensuring exports remain competitive, or allow the exchange rate to continue its real appreciation, thereby bearing down harder on inflation?

Some are dubious that the dilemma will be satisfactorily resolved. "We doubt that the country can safely negotiate the path between the Scylla of an uncompetitive

Continued on page 3

GDP



Source: Mexican government

Deregulation: Transport, telecoms and the energy sector are lining up

A Herculean effort required

The country can ill afford some of the highest transport costs on the continent

Since the devaluation of the peso, the highway linking the steel town of Monclova in northern Mexico to San Antonio in Texas has been jammed with convoys of trucks, laden with rolled steel, heading north. The railway line which runs almost parallel to the highway has picked up little of Mexico's booming steel business.

"The steel industry should not be moving exports by truck," says Rafael Fernández-MacGregor of the South Orient Railroad in Texas.

"But the Mexican rail service is so bad, so unreliable, that industry has become disconnected from the rail system."

It can take more than a week for Ferrocarriles Nacionales de México, the state-owned railway corporation, to transport freight from Mexico City to the US border.

The same journey takes 20 hours by truck.

In an open economy, increasingly integrated with the US, Mr Fernández-MacGregor believes the Mexican industry can ill afford some of the highest transport costs on the continent.

Agriculture is also affected. More than 400,000 Mexican head of cattle are transported to Texas each year for fattening. Once, the herds were carried by rail. Then railway employees began holding up cattle wagons for days at the border to extort bribes. So the herds now travel by truck.

There are also examples of inefficiencies which seem almost deliberately contrived. The Chihuahua-Pacific railroad, which begins in the outpost of Ojinaga on the Texan border, ends just a few hundred metres short of the port of Topolobampo on the Pacific coast.

"Why didn't they build the railway right up to the port?" Mr Fernández-MacGregor asks. "So that some businessman with a few trucks and the right political connections could overcharge you to carry freight from the trains to the ships."

All this could be about to change. Government officials hope the privatisation of Ferrocarriles Nacionales, which began this year, will usher a new era in rail transport that brings about dramatic savings in Mexico's transport costs.

Jorge Silberstein, privatisation chief at the transport and telecommunications ministry, says Mexico's railways carry less than 13 per cent of overland freight. There is thus substantial potential in the business of transporting Mexico's $100bn two-way trade with the US, 80 per cent of which is carried overland.

So far, the government has put two networks out to tender. One is the scenic Chihuahua-Pacific route, which runs through the spectacular Copper Canyon. The other is the busy North-Eastern line, almost 4,000km long, which links the towns of Nuevo Laredo and Matamoros on the US border to Mexico City, and the capital to the ports of Veracruz on the Gulf coast and Lázaro Cárdenas on the Pacific.

> US rail companies see the sale as an opportunity to extend their hinterland

The privatisation has attracted keen interest from US railway companies, which see the sale as a unique opportunity to extend their hinterland into Mexico. "The rail haulage business is only profitable over long distances," Mr Fernández-MacGregor explains. "That is why the Mexican privatisation is a key happening in the continental rail business in North America."

Mr Fernández-MacGregor's South Orient Railroad, in association with Grupo Mexico, the mining group, has put in a bid for the Chihuahua-Pacific railway. Two other bidders dropped out this month.

Mr Fernández-MacGregor says there is economic potential in the Chihuahua-Pacific route, particularly in the transport of agricultural produce from the northern state of Sinaloa to the US. "We have conducted test runs with refrigerated containers from Sinaloa to Chicago, and we proved we could do it in two and a half days, and 20 per cent below the cost of carrying it by road," he says.

The North-Eastern line, which carries 60 per cent of Mexico's rail freight, is expected to attract far more bidders.

Juan Manuel Carreón, the Mexican representative of Southern Pacific Railways, with a $250m business in Mexico, says: "We would like to handle freight from the US into Mexico in a smooth single line."

Southern Pacific, which is being merged with Union Pacific in the US, is likely to be competing for Mexico's North-Eastern line against Burlington Northern-Santa Fe, Railtex and Kansas City-Southern.

The bidders say Mexico's railroads don't require much new investment. They just need to be run better.

The new concession holders will be handed networks that have been "cleaned" of debt and surplus workers. Mr Silberstein says the government will continue to pay the pensions of Mexico's 50,000 retired railway workers, but a question mark hangs over the future of Ferrocarriles Nacionales' 50,000 employees.

"We are talking to the unions about job cuts," Mr Silberstein says.

After the railway privatisation, the spotlight is likely to return to road transport and the maze of regulations which make it so costly and inefficient to transport goods within Mexico.

"We still do not have a fully liberalised economy," says Luis Rubio, director of CIDAC, the Centre for Development Studies, in Mexico City. "It is still cheaper to move cargo from Mexico City to Chicago than from Guadalajara to Tabasco."

The reason, he says, is that national freight companies are not allowed to deliver cargo within city limits. Instead, they must sub-contract smaller transport companies which are licensed to operate within city limits. This cumbersome process tends to inflate freight charges, raise the final cost of transported goods, and make the economy – as a whole – less competitive.

Apart from streamlining regulations, President Ernesto Zedillo's government also plans to revive the private-sector road building programme under a new scheme which promises to make toll roads profitable. The plan, which is expected to include access to long-term government finance, will be unveiled before the end of the year.

Nobody in Mexico wants a repeat of the toll road fiasco of the early 1990s, when construction was financed with expensive, short-term credit, and lower-than-expected traffic drove most toll operators insolvent. Salvaging the toll-road business has required costly government subsidies and the rescheduling of more than $4bn of loans – a complicated exercise, which is expected to cost the government more than 14bn pesos ($1.86bn), or 0.6 per cent of GDP, in debt write-offs and interest rate subsidies next year.

Mr Silberstein says the government also plans to begin the process of privatising Mexico's airports before the end of 1996. The first airport to be put to tender is likely to be Puerto Vallarta, a holiday resort on the Pacific Coast.

In all, Mr Silberstein says concessions to run 58 airports will be awarded over the next two years. The life of the concessions has yet to be decided, but could be as long as 50 years.

Leslie Crawford

Cars queue at Juárez checkpoint to the US. Roads are feeling the pressure of rail's inefficiencies

Winds of change snuff old problems

Rivals battle for a share of the growing market in telecoms

Traditionally, telecommunications in Mexico have been just another of the country's problems. Well into the 1990s, lines took years to install, billing was incompetent, and connections in even Mexico City's central exchange were still made with 1930s technology.

However, the sector has been transformed this decade. After privatisation in 1991, the old state telecommunications utility, Teléfonos de México (Telmex), became one of the most traded companies on Wall Street, keeping its long-distance monopoly, regularly recording operating margins of 40 per cent – until the 1994 peso devaluation – and investing much of the proceeds in improved infrastructure.

Now the sector is feeling the winds of another change. Full competition in long-distance services is scheduled to begin next year, and some of the world's leading companies are jostling for position.

Most users will be able to take advantage of new companies' services after 1 January next year, when Telmex begins to connect its rivals' long distance networks to its own exchanges, and hence to ordinary phones. Already the company has lowered its prices in expectation of brisk competition, and an expensive advertising war by two of its future competitors has acquainted customers throughout the country with what is in store.

One prospective rival, Avantel, is a joint venture between MCI Corp and Banamex, Mexico's biggest bank. The other, Alestra, links AT&T with Mexican conglomerates Grupo Alfa and Grupo Visa.

Both companies have already ploughed hundreds of millions of dollars into fibre optic networks for long distance calls. Each promises to invest a total of $1bn by the end of the decade. The investments are spurred on by two key considerations: the volume of calls between the US and Mexico is greater than traffic between any other two countries save Canada and the US; and the Mexican long-distance market is widely predicted to grow by some 20 per cent a year in the near future.

A handful of smaller companies are snapping at the bigger players' heels, ready to fill whatever niches are left.

> Telmex has got ahead in the race with an $11bn investment over the last six years

For its part, Telmex has invested $11bn over the last six years. Among the results are a modern centre that monitors and corrects most of the line faults in Mexico City, and provides services like call-waiting and high speed data lines.

"No-one will be able to duplicate the infrastructure that Telmex has built up," says Carlos Casasús, president of Mexico's Federal Telecommunication's Commission, the regulatory body for the sector.

Though the old monopoly carrier will remain strong, the battle for market share is likely to be furious. The competitors reckon on winning 10 to 15 per cent of the $3bn long-distance market between them during the first full year of competition, perhaps pushing the figure up to 40 per cent by the year 2000.

The pace of liberalisation, however, will be deliberately slow, to aid the stability of the market. The worldwide experience of new entrants like AT&T and MCI and the fact that the devaluation has already brought rates down in real terms should also make the liberalised sector less prone to price wars than it otherwise would be.

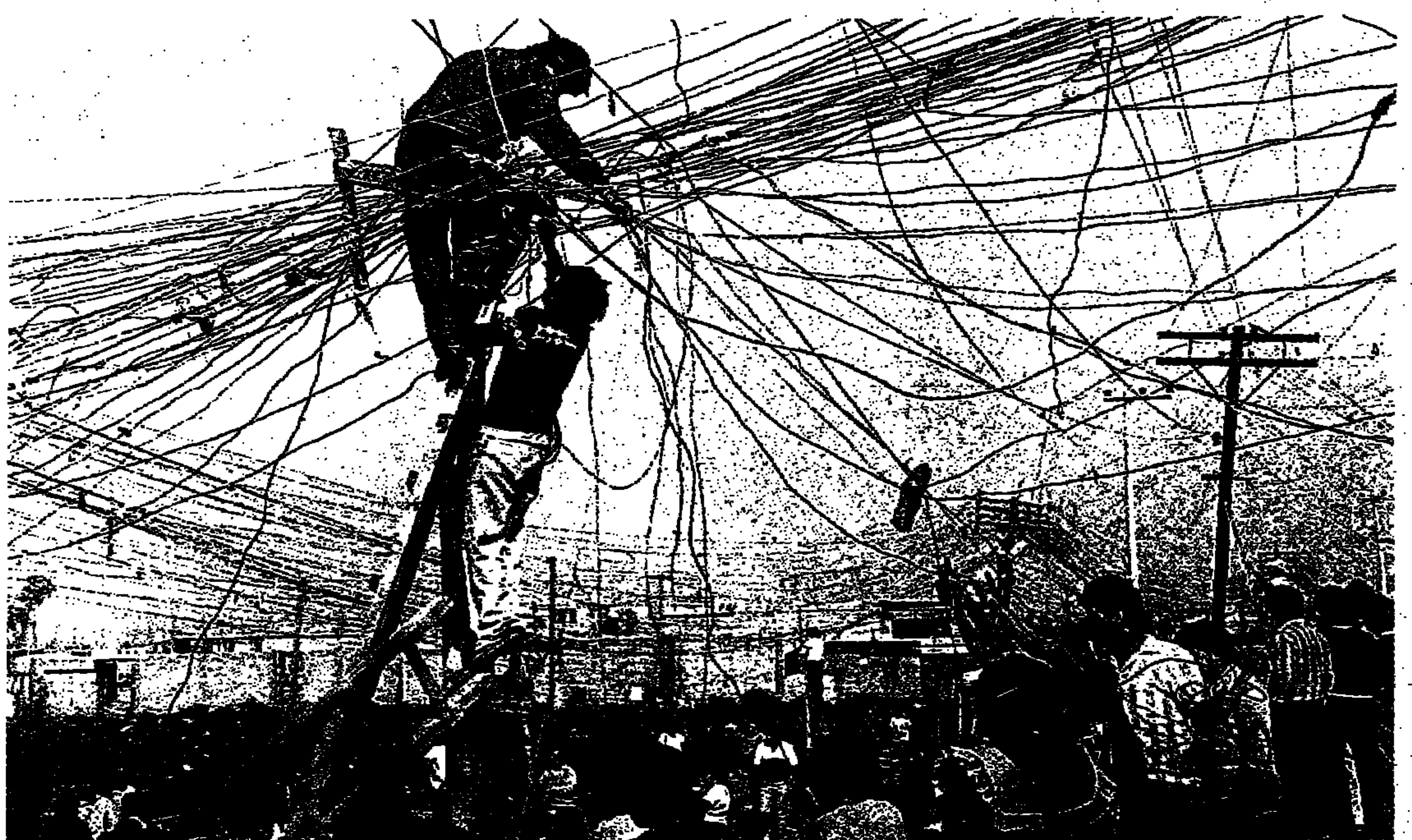
Telmex managers hope a growing market will compensate when, as is inevitable, they see a fall in long distance market share; and that increasing revenue from local calls will make up the balance. Local rates are being slowly brought up to market levels. However, the rates remain too low to attract any competitors to the business, and over the next two years will be subsidised by high fees paid to Telmex to connect its rivals to its own network.

Mr Casasús argues that new companies will nevertheless soon enter the market for local service, as the use of new technologies brings down the cost of the necessary infrastructure. Auctions will be held next year for the use of parts of the radio-electric spectrum for wireless telecommunications.

The cellular market, currently a duopoly dominated by Telmex's subsidiary Telcel, may also become more disputed once the spectrum concessions are granted.

So far, the liberalisation of the long-distance sector has proceeded well by any standards. The proof of success, however, will come next year – when the future shape of the local and cellular markets should also become more clear.

Daniel Dombey


Mexico's heavily-subsidised electricity tariffs are still not cheap enough for slum-dwellers: in Valle de Chalco, stealing power from the main lines is big business Picture: Universal

Oil remains a slippery issue

The jewel stays firmly in the state's crown as the energy sector opens out

The good news is that Mexico's energy sector is being deregulated.

The bad news is that Petróleos Mexicanos (Pemex), the state oil monopoly and one of the world's biggest oil companies, is not for sale.

The country's oil and natural gas resources were nationalised in 1938. Pemex has since become such an icon of Mexico's national identity that few politicians, in government or opposition, have dared challenge its state ownership.

Attempts to hive-off "non-core businesses" such as petrochemicals have defeated two presidents, including Ernesto Zedillo, who appears inclined to forget about the sale in view of the antagonism it has generated within the ruling party.

The government, however, realises that Pemex's limited development of the gas industry is holding back the energy sector as a whole. Attempts to get private-sector companies to build and operate electricity plants, such as the 440MW Merida III power project in the Yucatán peninsula, have foundered on Pemex's foot-dragging over the construction of a gas pipeline to the plant.

More than half of the country's electricity is generated from fuel oil today, but environment regulations that take effect in 1998 should increase the use of natural gas.

Early in President Zedillo's administration, new legislation was approved to allow the private sector to transport and distribute natural gas and build new pipelines to feed power plants. The extraction of natural gas remains a preserve of the state, although government officials are already searching for ways of bending the rules to allow private sector exploration contracts on the mainland.

The first concession, to distribute natural gas in Mexicali, a town on the US border, was granted in August this year. The government hopes $3.5bn of private investment in gas transport and distribution will follow over the next five years.

Héctor Olea, chairman of the Energy Regulatory Commission, says the second concession, for the northern city of Chihuahua, will be awarded in the next six months.

Thereafter, concessions will be auctioned off at the rate of one a month.

Once the gas distribution business is settled, Mr Olea plans to tackle the deregulation of the electricity sector, which will include Mexico's first-ever attempt to establish a rational framework for electricity tariffs.

In a recent report, the OECD's International Energy Agency urged Mexico to speed up work on a regulatory framework for the electricity sector.

"Mexico's ability to attract large-scale IPP (Independent Power Producer) and co-generation investment, most of which would use natural gas, is contingent on higher electricity prices, a secure regulatory framework and a significant increase in hydro-carbon production by cash-short Pemex," the report said.

Energy ministry officials estimate Mexico needs to invest between $9bn and $11bn in electricity generation over the next six years to keep pace with demand, which is growing at 5 per cent a year.

The government has revived a plan to attract private investment, inviting bids for the construction of six power plants.

Potential investors, however, are concerned about Mexico's heavily-subsidised electricity tariffs, which would make any investment in the energy sector unprofitable without a sharp adjustment in energy prices. The cost of electricity in Mexico is only a fraction of that in the US.

There are no plans to create a free market in electricity, as private sector producers would still be required to sell all their production to the Federal Electricity Commission (CFE), which runs the national grid. And Mr Olea's Energy Regulatory Commission has yet to work out pricing policies that would guarantee private investors an attractive return on electricity investments.

In the meantime, the CFE says it will negotiate purchase prices with each independent power producer.

Chile, which privatised its electricity sector in the 1980s, has an independent regulatory authority which adjusts tariffs every year based on models which calculate profit margins for a theoretically efficient power producer.

No such model exists in Mexico. Instead, tariffs are set by the finance ministry without much consideration to the costs of production. Energy analysts estimate that the current price of electricity in Mexico does not even cover the CFE's operating costs, let alone depreciation and new investment.

A milestone of sorts, however, was set earlier this year when $600m of government and private financing was raised for Salamayuca II, a 700MW gas-fired electricity plant which will be built a few kilometres south of the border from El Paso, Texas.

Salamayuca II is the first power project in Mexico to be built with private capital, but the latter will only be available for the duration of the construction phase, which is expected to end in 1998. These relatively short-term credits have led energy analysts to question Mexico's ability to raise long-term private finance to match the 20-year lifespan of a typical power plant.

Salamayuca II is a joint venture between General Electric, Bechtel Enterprises, El Paso Energy International and Grupo ICA, Mexico's largest construction group. Mexico's Federal Electricity Commission will lease the plant for 20 years once it is completed in 1998.

Leslie Crawford and Daniel Dombey

■ **Banking:** by Stephen Fidler

More time and money needed

Full recovery likely to be an 'extended and painful' process

Mexico's banking crisis immeasurably worsened the economic mess that followed the December 1994 devaluation of the peso.

According to the US credit rating agency, Standard & Poor's, the bail-out of Mexico's banking system will cost 12 per cent of 1995 gross domestic product, more than twice the amount received when the banks were privatised in 1991-92. The official Mexican estimate is lower – now around 8 per cent of 1996 GDP – but continues to creep upwards over time.

This compares with estimated losses of 3 per cent of GDP to taxpayers in the US savings and loan crisis; 6.4 per cent in the Swedish banking crisis; 15 per cent in Venezuela's 1994-95 crisis; and as much as 30 per cent for the Chilean crisis of the early 1980s.

The US bank, JP Morgan, has estimated non-performing loans in the banking system to be some 35 per cent of total loans, though some estimates suggest this could be as high as 50 per cent.

To tackle the crisis, there have already been 10 special programmes and measures aimed at helping either banks or debtors out of trouble. This *ad hoc* approach has brought criticism that the bailout could have been handled more cheaply and transparently, and may in some cases have set up perverse incentives for debtors.

But few disagree with the US credit rating agency Moody's that a full recovery for the system will be an "extended and painful process" that is far from over.

Eduardo Fernández, Mexico's chief bank supervisor, said programmes to help out banks and debtors have contributed to a perception that the risks of a banking crisis have receded. "The capital of the banks has increased, as have provisions for doubtful debts. These advances have been very important," he said.

"However, a definitive solution will take time and money. There are no immediate answers and we're going to persevere with the programme."

The banks' problems had begun to emerge even before the December 1994 devaluation brought about a disastrous jump in interest rates and a deep recession which devastated balance sheets.

They followed an explosion of bank credit in the early 1990s, which began even before privatisation in 1991-92. Total credit of the banking system to the private sector grew from 13 per cent of GDP in 1988 to 36 per cent in 1994.

Banks, which had mainly operated as channels of credit to the government, were inexperienced in lending and lacked the technology to control the loans. Over-optimism about Mexico's economic prospects was rife. Some banks were being operated fraudulently. To cap it all, oversight by banking regulators was hopelessly inadequate.

The rapid growth of consumer and mortgage credit also meant many more individuals were hurt by high interest rates than had been the case during previous recessions. One effect of this has been the emergence of a vociferous pressure group, called *El Barzón* (the Yoke), which organised street demonstrations aimed at banks and at securing concessions for individual debtors.

Now the government owns some 200bn pesos ($26bn) in nominal value of bank assets, a fifth of all Mexican banking assets. The National Banking Commission plans to start auctioning some of these assets this year.

The crisis has also resulted in substantial foreign ownership of the Mexican banking system, barred at the time of privatisation. The commission estimates that 15 per cent of the system could be in foreign hands by the end of 1997, which could eventually increase to 25 per cent.

Some forecast an even higher figure. "I would not be surprised if foreign banks owned 50 per cent of the Mexican banking system in about five years," said Ricardo Guajardo, chief executive of Bancomer, Mexico's second largest bank, in a July interview.

Bank of Nova Scotia has taken management control of Inverlat, the fifth-largest bank. Spain's Banco Bilbao Vizcaya took control of the branch networks of Oriente and Cremi and a majority interest in Probursa. Bank of Montreal has taken a minority stake in Bancomer, the second-largest. Serfin, the third largest and most problematic of the big three, and Mexicano are also seeking foreign partners.

Even the largest bank, Banamex, would consider a foreign partner. According to Roberto Hernández, its chairman: "We are not closed to the idea of having partners." Since the bank is unlikely to need a further injection of capital from shareholders, he added: "We'd be interested only in a strategic partner. I don't think it would be strategic to take a partner just because it wanted to put up a few hundred million dollars into the bank."

According to Mr Fernández, the bank supervisor, there are three main short-term challenges for the banking system. Banks must be ready for the conversion at the start of next year to US accounting principles, new shareholder capital must be injected to certain banks, and the administration of banks must be improved.

Under US accounting practices, banks have to record an entire loan as "past-due" if no payment has been received for 90 days; Mexican banks only record as past-due loan instalments not paid after 30 days, while the remaining balance is considered current.

"The key to a soft landing in the transition to US accounting rules is a successful restructuring of the mortgage portfolio," Mr Guajardo of Bancomer said.

Given a continued tendency for interest rates to ease, the peak of non-performing loans should be reached in the third or fourth quarter of this year, he said.

The speed with which the system emerges from its troubles will depend crucially on economic growth and the path of interest rates. "The only definitive answer to the banking crisis is to have economic growth for several years," said Adolfo Lagos, chief executive officer of Banco Serfin.

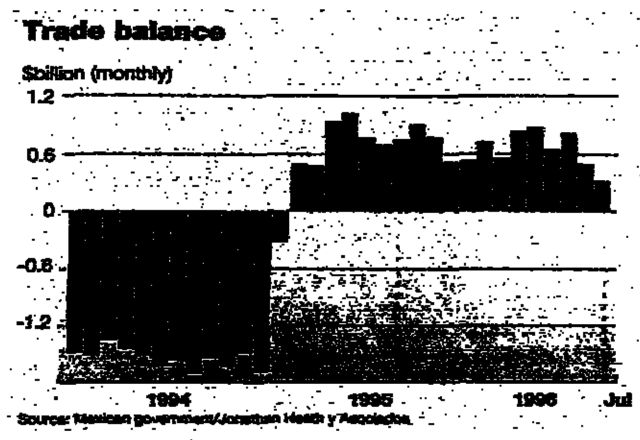
Yet the preoccupation of banks with building capital means that they themselves will only cautiously begin to extend new credit, thereby contributing to that growth.

Longer term, one important development will be the establishment of a new insurance system for small depositors. Among other things, this would be aimed at removing the safety net from all depositors. It would help resolve the moral hazard problem, where big depositors seek the highest returns available in the banking system, regardless of credit risk, because they know they will be bailed out in case of a bank collapse.

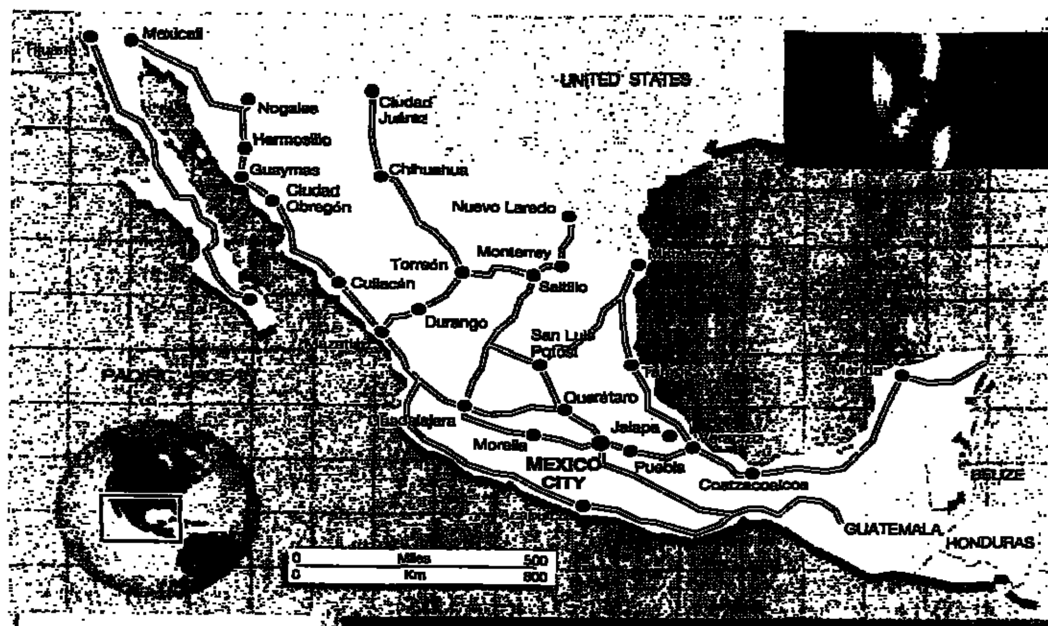
However, the move to deposit insurance will not be made immediately. "We want to make sure we'll have a soft landing. We are not questioning the need to do it; we'll do it. It's a matter of timing," Mr Fernández said.

The mistakes that have led to the banking collapse have been costly. But according to Standard & Poor's, if they lead to the development of a healthy banking system that can efficiently channel savings into productive investment, the banking crisis may have beneficial effects. "Over the long run, a moribund, inefficient banking system is more costly than 12 per cent of a nation's GDP," it argued in a report published in August.

Trade balance



Source: Mexican government/Jonathan Heath y Asociados



■ **Area:** 1,967,183 sq km
■ **Population:** 91.1m (1995)
■ **Currency:** Mexican Peso
Rate: Oct 22, 1996 $1=7.73 Pesos
■ **Main towns and population:** (1995 estimates)

Mexico City (federal capital) and metropolitan area	16,4000,000
Guadalajara	3,300,000
Monterrey	2,900,000
Puebla	1,222,000
Leon	1,036,000
Ciudad Juárez	1,010,000
Tijuana	989,000
Mexicali	695,000
Chihuahua	627,000
San Luis Potosi	624,000
Toluca	564,000

■ **Language:** Spanish. However some English is spoken in business centres.

Source: Bank of Mexico/Mexican government

Economic summary

	1994	1995
Total GDP, current prices (Pesos bn)	1,423	1,792
Real GDP growth (annual % change)	4.5	-6.3
GDP per head ($)	7,080	2,702
Consumer price inflation (%) [1]	7.0	52.0
Producer price inflation (%) [1]	9.1	59.5
Foreign debt ($bn, end period)	142.2	170.1
Debt service (% of exports)	34.2	28.6
Unemployment (%)	3.7	6.3
International reserves ($bn)	6.1	15.7
Exports ($bn)	60.8	79.5
Imports ($bn)	79.3	72.4
Balance of trade ($bn)	-18.4	7.0
Current account ($bn)	-29.4	-0.7

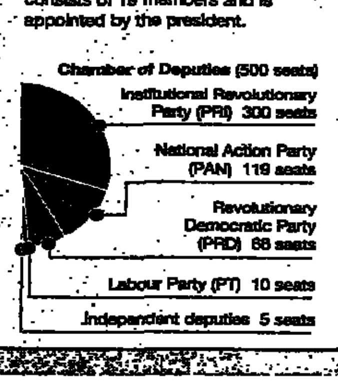
[1] Accumulated, Dec year-on-year

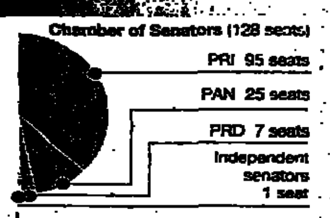
Government and constitution

Head of state:
President Ernesto Zedillo

■ **Political system**

Mexico is a federal republic of 31 states and one federal district. Executive power rests with the president, who is elected by universal adult suffrage for a six-year term and is not eligible for re-election. The cabinet usually consists of 19 members and is appointed by the president.

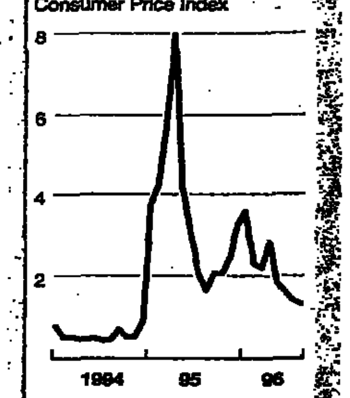




■ **Legal system**

Legislative power is vested in the bicameral National Congress, which, as reformed in 1993, consists of a 128 member senate and 500 members at the Chamber of Deputies. Each state has its own constitution and is administered by a governor, who is elected by universal suffrage for six years.

Inflation



Source: Mexican government

Forex volumes soar

One unexpected consequence of the December 1994 devaluation of the Mexican peso has been a rapid rise in foreign exchange trading volumes.

Trading has been encouraged by the development of futures and forwards markets in the peso, previously prohibited by the Bank of Mexico, and the switch to a fully floating exchange rate from a pegged currency regime.

According to Francisco Gil, vice-governor of the Bank of Mexico, gross trading volumes in the peso are now regularly $4bn-$7bn daily. "We have been surprised," he says. "That's the number you see for Canada."

The figure does not include the $300m-$400m daily of transactions in the overnight market.

Volume used to be so low that the International Monetary Fund in its 1995 report on International Capital Markets remarked on it. One bank – Banamex – had around 30 per cent of the market, while Bancomer and Serfin had 10 per cent each and Nafinsa, the government development bank, an important share.

"Since the market is concentrated in the hands of a few large participants, volume is more than proportionately lower than in US-based dollar markets," the IMF report said at that time.

Not any more, it seems.

Stephen Fidler

A fine time for a crisis

Continued from page 1

exchange rate and the Charybdis of a consumer boom," says Roger Nightingale of the London-based brokers, Latinvest. The dilemma, however, will not fully emerge until the middle of next year, he says.

Some observers believe that the monetary authorities are pursuing a strong exchange rate policy. While it has not happened yet, the peso, by some calculations, is on the brink of becoming overvalued.

This has brought sharp criticism from, among others Rudiger Dornbusch, professor of economics at Massachussets Institute of Technology, who suggests that, by encouraging an overvalued peso, the central bank is making similar sorts of mistakes to those that preceded the 1994 devaluation. "They are doing exactly what they were doing last time, but they are in nowhere near as deep." He argues the bank should be encouraging a guided depreciation of the peso.

Mr Dornbusch says that it is the central bank's very restrictive policy to limit the growth of the monetary base that has been keeping the peso so strong. But the central bank says the comparison with 1994 is mistaken.

"People had lots of reasons to be concerned about 1994: a current account deficit of 7 per cent of GDP, a big part of which was being financed by overnight money. This is not the case any more," says Francisco Gil, vice-governor of the Bank of Mexico.

"We have now a freely floating exchange rate and floating interest rates. No other country has a set-up like ours. They are like two bellows moving at the same time: interest rates and exchange rates."

"Nobody is providing any guarantees on interest rate or exchange rates. That's much more effective in preventing large inflows of hot money," says Mr Gil.

Indeed, there has been no large build-up in holdings by foreigners of Mexican government fixed income securities. Net foreign positions have not exceeded $1bn, the central bank says, although there is some evidence of modest increases of foreign deposits in Mexican banks, according to bankers.

Nonetheless, there remains the worry that some of Mexico's old problems are reasserting themselves, in particular, the propensity of Mexicans to buy imports once there is a revival in the domestic economy. This demand for imports, suggests Jonathan Heath who runs an economic consultancy in Mexico City, is not very price sensitive so even devaluation would do little to stem the flow if the economy is strengthening.

This raises the question of whether once again the economy will have to be restrained – perhaps at only modest growth levels – to prevent demand for imports growing excessively.

"There is a structural problem: on the imports side you have high income elasticity and low price elasticity," says Mr Heath. "Part of this is the high import content of exports, and exports are doing well. But as soon as you start to have a recovery in the domestic economy, it sucks in imports. Even a strong devaluation of the currency won't discourage imports much because of the low price elasticity. What this means is that we could depreciate the currency next year by 30 per cent and still have a trade deficit." Furthermore, he says, the government is moving slowly on the changes needed to correct this over the medium term.

There have been some advances, however. While cancellation of the privatisation plans for the petrochemicals industry was a setback, privatisation of the railways could have important effects on the inefficient transport sector. Removing the telephone monopoly also represents an advance, as does the pension fund reform which goes into effect next year, and should help raise an inadequate savings rate.

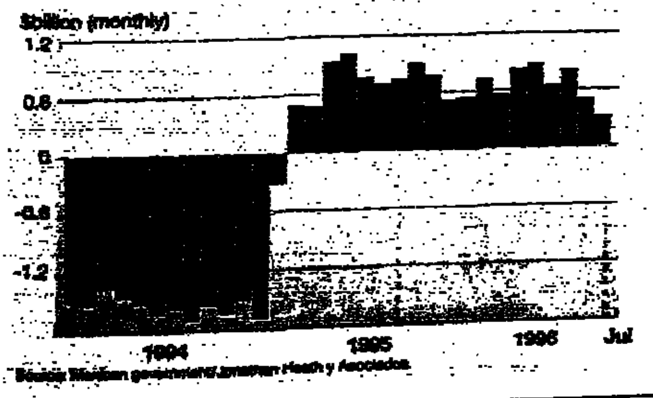
Officials expect the system to accumulate some $3.5bn in its first year of operation in 1997. The initial effect, however, will be to increase government spending. Finance minister Guillermo Ortiz estimates the cost of the reform to next year's budget to be 1.2 per cent of GDP, two-thirds of which will be accounted for by the social security reforms and the rest by the parallel health reform.

Roberto Hernández of Banamex

Adolfo Lagos of Banco Serfin

Ricardo Guajardo of Bancomer

Trade balance



Source: Mexican government/Jonathan Heath y Asociados

■ **Politics:** by Leslie Crawford

The new freedoms still sit uneasily

As the way ahead loses clarity, the ruling party has revolted against its technocrats

Mexico is in the throes of tumultuous political change.

The old Mexico appeared to be a bedrock of stability, in which the dominant Institutional Revolutionary Party was skilled at reconciling interests and co-opting dissent. The new Mexico is a more confusing place: the old certainties are gone, and newly-won freedoms – fairer elections, a more vocal press – co-exist uneasily with vestiges of the authoritarian past.

Since January 1994, the month Mexico joined the North American Free Trade Agreement, the country has been convulsed by two guerrilla uprisings, political assassinations, a traumatic devaluation and a difficult presidential handover. Frustration with the ruling party, which has governed since 1929, is running so high that 32 per cent of respondents to a recent poll in Mexico's three biggest cities said they approved the use of violence to force political change.

The PRI lost 3m votes in the recessionary aftermath of the peso crisis. It remains a formidable electoral machine, even though the rift between hardliners and technocrats has become more evident since the country's economic debacle.

The conservative National Action party (PAN) made huge strides during the recession, capturing three of the four state governorships it contested and 219 cities, home to almost one-third of Mexico's 91m people. Yet even Felipe Calderón, the party leader, admits the PAN needs better policies to overtake the PRI.

"We are regarded as the best political party, but not yet as the best option of government," he says.

The third player on the national arena, the left-wing Revolutionary Democratic party (PRD), has held on to 15 to 20 per cent of the vote despite its internal divisions. Its importance as a loyal opposition party may grow as the government seeks to neutralise a host of radical urban and peasant organisations which have become more restless since the onset of the recession. Government officials believe these radical groups may be supporting Mexico's newest insurgents, the Popular Revolutionary Army (EPR).

Little is publicly known about the EPR. In a series of co-ordinated attacks in August, the guerrillas displayed their ability to strike simultaneously across one-third of Mexico's territory. The group, however, has failed to capture the moral high ground of the Zapatista peasant uprising in Chiapas, and government officials believe they can sap the guerrillas' strength by paying more attention to the country's marginalised communities.

Neither the guerrillas, nor the forthcoming mid-term elections in 1997 held the attention of the PRI's national assembly in September, the most significant gathering of party faithful since 1990. Instead, delegates sought refuge in nostalgia and revenge. "Revolutionary nationalism" replaced "social liberalism" as the party's guiding economic principle. The assembly voted to oppose the privatisation of the petrochemicals industry – the aim of two successive PRI administrations. And in a devastating blow to the technocrats who have held the reins of power for the past 15 years, the rank-and-file decided that their next presidential candidate (and future gubernatorial candidates) will need to have held previous elected office and have been a card-carrying member of the PRI for 10 years in order to qualify for the nomination.

President Ernesto Zedillo and his four predecessors, culled from the senior ranks of the government administration, would not have attained Mexico's highest political office under the new rules.

The new rules prevent the PRI from enlisting sympathetic businessmen as election candidates, a strategy successfully pursued by the PAN. They also came as a shock to President Zedillo's cabinet ministers, most of whom will have to resign their posts and contest an election if they entertain ambitions of becoming a *"presidenciable"*.

"The PRI made a big mistake at its national assembly," says a senior government official. "It is closing in on itself, when what the country needs is a more open, more inclusive party."

"The new rules have transformed the PRI into a bunker," says Guillermo Valdés, a political analyst at GEA consultants in Mexico City. The convention, he says, crystallised the rift between PRI "dinosaurs", who resent their loss of influence over a succession of governments preoccupied with economic transformation, and technocrats who disdain the party machine which voted them into power.

The dinosaurs, however, could be about to stage a political comeback if President Zedillo declines, as he has already indicated, to appoint his successor.

"Lobbying for the presidential succession has already begun," says Mr Valdés. Rivals will seek to position as many supporters as possible in next year's congressional elections. They will also jockey for influence within the PRI's National Political Council, a 300-member politburo which will elect the party's presidential candidate in the year 2000.

As the incentives to remain loyal to President Zedillo diminish, ruling Mexico will become a more difficult affair. Presidential advisers concede that from now on, Mr Zedillo will have to pay more attention to his own political base, and spend more time lobbying unpopular legislation through Congress.

No amount of lobbying, however, can conceal the fact that the president has fewer resources to keep his fractious party in check. The size of the public sector, carved up under the traditional PRI patronage system, has shrunk from 42 per cent of gross domestic product in 1980 to less than 25 per cent of the economy today.

Ironically, the PRI has not yet focused on the need to bolster its electoral appeal to compensate for the diminishing returns in the state patronage system.

Opinion polls show the PRI will almost certainly lose next year's mayoral race in Mexico City to the PAN. The ruling party could also forfeit its absolute majority in Congress. But at its national gathering in September, there was little debate over how the PRI will face the challenges of the country's nearly completed electoral reforms.

Santiago Creel, a lawyer who has fought for electoral reform as a councillor of the Federal Electoral Institute, says: "The PRI fears political competition. It does not want a free market in political choice. If it did, we would have a very different country today."

Constitutional reforms in July, which President Zedillo counts as one of his most proud achievements, are intended to pave the way for fairer elections next year. Agreement is still pending, however, on the financing of political parties, and regulations to monitor how political funds are spent.

The PRI needs to replace its covert government transfers with legitimate sources of income, so it is lobbying for the government to finance 90 per cent of all party spending. The PAN wants to limit government funding to 50 per cent of the total. The PRD is poorer than the PAN and therefore sides with the PRI on this issue.

Controversy over the PRI's apparently unlimited resources achieved the dimensions of a national scandal this year in Tabasco, where the PRI was accused by the PRD of spending more than $70m to secure the election of the state governor. In July, shortly after President Zedillo visited Tabasco, a local prosecutor cleared the PRI of any wrongdoing. Few Mexicans failed to link the two events.

Mr Zedillo pledged from the day he took office that he would not abuse the powers of the presidency. But in Tabasco and in other regional conflicts, it has not always been possible for Mr Zedillo to maintain his hands-off approach. Many Mexicans would rather see their president marshall the considerable authority at his disposal to speed the political transition.

"To generate investment and jobs," Mr Creel warns, "we need a new institutional arrangement that is capable of inspiring confidence and political stability. It will be difficult to continue perfecting the economic system without progress in political reforms."

A mural detail from 'Porfirism to the Revolution', by David Siqueiros, in the National Museum of History, Mexico City

■ **The regions:** by Leslie Crawford

Feast and famine under one regime

The lessons from La Provincia are uneven, and the developmental gap has widened

"La Provincia", as anywhere outside Mexico City is known, is rebelling against centuries of centralised control. Mexico's 31 states are demanding a greater share of the fiscal pie and less government meddling in their federal affairs.

Some of President Ernesto Zedillo's worst political headaches have come from the provinces – from guerrilla uprisings in Chiapas and Guerrero, to electoral fraud in Puebla and Tabasco – but they have also delivered some of the best lessons in economic survival during the country's financial crisis.

By Mr Zedillo's own admission, the centralism Mexico inherited from its colonial masters has been "oppressive and retrograde, a concentrator of wealth and resources, insensitive and inefficient". It has failed to do what centralised governments ought to do: redistribute resources from the wealthiest regions to the poorest ones.

As a result, the development gap between Mexico's industrial north and indigenous south has become huge. According to a study by the Technological Institute of Monterrey, average labour wages in the northern state of Nuevo León are three times higher than in Chiapas, a state which borders Guatemala. Per capita consumption in Baja California, another northern state, is five times higher than in Oaxaca, 3,000km further south.

In Mexico's misery belt – the southern states of Chiapas, Oaxaca and Guerrero – one-quarter of the population is illiterate, compared to less than 6 per cent of the population of the states on the US border.

It is therefore not surprising that the rebellion against central government should have begun in Chiapas, on January 1, 1994, the day Mexico joined the North American Free Trade Agreement. It was spearheaded by Maya Indians demanding autonomy, land reform and an end to human rights abuses. More recently, a second guerrilla movement has emerged in the hills of Oaxaca and Guerrero. The leaders of the Popular Revolutionary Army (EPR), according to the government, are disaffected urban Marxists, but there is evidence of sympathy, if not open support, for the guerrillas in the Sierra Madre.

Bad government, particularly by state governors who have ruled their backward fiefdoms like autocrats, is perhaps the main cause for the anarchy which has begun to encroach on Mexico's prosperous centre. For while the Zapatista guerrillas were never able to break out of Chiapas, the EPR has demonstrated its ability to stage hit-and-run strikes across large swathes of Mexican territory.

The guerrilla threat, and political instability caused by electoral fraud, poses a dilemma for the president: how can he decentralise government while at the same time force his most retrograde governors to accept greater local democracy?

Mr Zedillo, by common consent, has been studiously respectful of local political affairs, even when atrocious crimes, such as the massacre of peasants by police in Guerrero last year, cried out for presidential intervention.

His reluctance to intervene in electoral politics has also resulted in miscarriages of justice. In the oil-rich

> Some small states have reputations as havens of good government

state of Tabasco, for example, Roberto Madrazo, the PRI governor, was confirmed in his post despite evidence brought by the opposition that he spent $70m, or 60 times the legal limit, to secure his election victory.

Nevertheless, some regional governments have learned to flourish under President Zedillo's non-interventionist rule.

"Now that the president no longer tells the provinces what to do, clear-minded governors are pressing ahead with deregulation and the modernisation of their economies," says Luis Rubio, director of CIDAC, the Centre for Development Studies, in Mexico City. "Old-fashioned governors are having a far more difficult time because they no longer have central directives to follow."

Small states such as Aguascalientes, Guanajuato and San Luis Potosí in central Mexico, as well as the northern states of Sinaloa and Baja California, are earning reputations as havens of good government, and therefore magnets for foreign investment.

Aguascalientes, with a population of 862,335, has attracted 151 new corporations in the past four years, creating 23,000 new jobs. Its exports have increased from $345m in 1992 to $1.36bn in 1995. The state investment board regularly scans the Internet for export opportunities, and sends local businessmen on foreign trade missions. Aguascalientes' secondary schools have been equipped with computers, while the government is working with the business community to develop more technical training colleges.

When Yamakawa, a subsidiary of the carmaker Nissan, decided to locate in Aguascalientes, the state built a new industrial park for the Japanese newcomer in 56 days.

"Foreigners bring technology, they create jobs, pay taxes and are helping to change our business culture," says Otto Granados, the 39-year-old PRI governor of Aguascalientes. "This matchmaking has been very productive for our local businessmen."

He says Mr Zedillo's early decentralisation measures have allowed state governments more discretion over where public funds are spent, even though the recession has led to a sharp drop in overall government spending. Beginning in 1997, however, the responsibility for the collection of sales and income taxes will devolve to state governments. The better they fare, the bigger the bonus they will get from central government.

La Provincia is also where the opposition National Action party (PAN) is building experience in government, and from where it may launch its bid for the presidency in the year 2000.

Baja California elected Mexico's first opposition governor, Ernesto Ruffo, in 1989. Since then, the PAN has won the governorships of Chihuahua, Guanajuato and Jalisco, Mexico's second most-populous state, as well as the mayorships of 219 cities. The party has earned a reputation for combating corruption and nepotism, and making local government more people-friendly.

In Guanajuato, the PAN has one of its strongest advocates in Vicente Fox, a former Mexican president of Coca-Cola, who plays as well on the national stage as he does locally. Mr Fox is not afraid of breaking taboos, and recently told investors in New York he was in favour of privatising Pemex, the state oil monopoly. Already, he is being touted as the PAN's best chance for the next presidential race.

The lessons from La Provincia, however, have been uneven, and many Mexicans fear the forces within Nafta will widen the rift between the country's rich, export-oriented north and the less developed south.

Mr Rubio says: "In 20 years' time, perhaps, when the economies of Nuevo León and other border states are fully integrated into the US, and their economic reorientation is complete, I would not be surprised if proposals for secession would emerge.

"What happens to Quebec," he adds, "will be critical to Mexico's future."

■ **Doing business:** by Daniel Dombey

A tough culture shock

Bureaucracy is a fine art - and the pen-pushing brigade resist efforts to change

There is a simple lesson learned by all companies setting up in Mexico: regulations are more extensive and less clear than foreigners expect.

"You need extra staff and extra time to do even simple, everyday things. I need 30 per cent more accountants and 60 per cent more lawyers on staff than I would do in the US or the UK," says Michael Mucci, the head of BIP Plastics, a manufacturing company owned by the UK firm BIP Group Ltd.

Recently Mr Mucci had to carry out four separate environmental tests for local, state and federal authorities, none of which accepted the others' findings. "You cannot quantify regulatory problems. You cannot say they take 3 or 5 per cent off the bottom line. But they are a real cost," he says.

Awareness of such problems comes painfully to companies new to Mexico. The culture shock can be especially hard because Mexico often provides businesses' first taste of operations in a foreign country.

To start up operations in the Mexico City area takes 90 working days because of registration with different government agencies, estimates Mariana Prado, Director of Investment and Foreign Trade at the city's American Chamber. "A lot of the time companies come here after a year of feasibility studies and want to start up in two months," she says. "That is just not possible."

Several pressure groups are dedicated to keeping key regulations on the books.

Mr Mucci, who has 150 employees working for him, says he would like to hire part-time staff but cannot because of restrictions imposed by Mexico's federal labour law on part-time jobs. The law has been vigorously protected from reform by the country's pro-government unions for years.

Existing bureaucratic machines routinely resist most proposed cutbacks on rules and regulations. Throughout the Zedillo administration, local and state governments have successfully fought back proposals by environmental officials to replace often unenforceable caps on pollution with incentives to reduce harmful emissions.

"The government is sincere in its attempts to deregulate but you have an entrenched bureaucracy that is pulling the other direction because it makes its living off making things more complicated," says Gordon Lee, a technical partner at Price Waterhouse in Mexico City.

Quite often government servants owe more than their salary to the regulatory framework. Unclear or over-stringent regulations offer opportunities for corruption, particularly for the poorly paid, less well supervised officials at the local or state level. Environmental inspectors are particularly notorious for ad-hoc settlements, with about $500 enough to win a small or medium sized business a clean bill of health.

Further problems, such as a lack of legal certainty, are caused by the vagueness of

> 'Regulations are so badly drawn, a good lawyer can get you off'

regulations, particularly in the legal sphere. "In other countries, proposed regulations are issued for comment by lawyers and accountants. Not the case in Mexico," says Mr Lee of Price Waterhouse. "So half the time, regulations are so badly drawn up that a good lawyer can get you off. That adds to uncertainty." In one such instance, Mexico's asset tax was recently ruled unconstitutional.

For its part, the Mexican government has struggled to cut down on unnecessary red tape. Some rules have been thrown out, others have been speeded up and overlapping regulations are being rationalised.

The North American Free Trade Agreement and other trade accords have greatly simplified importing and exporting, while a 1993 reform to the country's Foreign Investment Law allows wholly owned subsidiaries of foreign companies to operate in many sectors.

State authorities like the government of Jalisco in the west of the country, are making special efforts to help businessmen by introducing "one-stop stations" where a single office deals with all the regulations a company is expected to meet. Other regional governments provide varying degrees of assistance for bureaucratic paperwork. The federal government is devolving many of its regulatory functions to state governments. The Foreign and Environmental ministries have already cut down on many of their rules.

But the task is huge and progress is slow.

"Every company that comes in underestimates the amount of legal and regulatory issues they need to clear up," says Mr Lee. "That is not going to put off a big company which has experience in overseas locations and knows Mexico is a good market. But for smaller, more marginal operations it could make a real difference."

FINANCIAL TIMES
COMPANIES & MARKETS

Monday October 28 1996

Black trade unions take control of Johnnic

By Mark Ashurst in Johannesburg

Trade unions will today become the largest shareholders in Johnnies Industrial Corporation, the South African industrial holding company being sold to black investors by Anglo American.

The National Empowerment Consortium, comprising 25 black trade unions and business groups, is to acquire 35 per cent of Johnnic in South Africa's biggest transfer of white-owned assets to blacks. Anglo, which previously held 48 per cent, will retain 7 per cent, ceding control to the black buyers.

The consortium, which agreed in August to buy a 20 per cent tranche in Johnnic by October 28 with an option on a further 15 per cent, said the entire stake had been oversubscribed by 20 per cent.

The stake is valued at R2.7bn ($577m), or R50 a share, a 7 per cent discount to the August share price and 10 per cent below Friday's closing price of R55.

The National Union of Mineworkers will emerge as the largest new shareholder with 12.9 per cent of the total stake – equivalent to 4.5 per cent of Johnnic. Five out of 10 new directors to be appointed to the Johnnic board will be from trade unions.

The cash will be drawn largely from the pension funds of trade union members, which will contribute about half of the purchase price.

The structure of the funding package is a victory for trade unions, which have battled to win control of pension funds managed by white institutions and controlled largely by white trustees.

"In the past, black and white union money has been wrapped together and fragmented across a number of pension funds controlled by company-appointed trustees," said Mr Rob Dow, chief executive of D. L. J. Pleiade, the merchant bank advising the unions.

The bank had raised about R2bn from institutions, including Old Mutual and Sanlam, South Africa's two biggest insurers, and Metropolitan Life, the country's first black-controlled insurer.

However, fund managers had accepted that unions wanted greater discretion over their investments and accepted that the Johnnic sale was "part of the political process. If union talent is going to run companies, their labour constituency must be tied in at ownership level", said Mr Dow.

Mr Tommy Oliphant, deputy chairman of the consortium, said it would meet in a few weeks to consider appointments to the boards of Johnnic.

Analysts said that union representatives would seek directorships in the most labour intensive companies.

Black business will receive 50 per cent of the consortium's stake.

The NEC's membership has shrunk from more than 50 in August to 25, as some members failed to raise cash for their bids. Mr Ramaphosa, a former leader of the National Union of Mineworkers, was last week elected chairman of the consortium.

BP to expand in Asia and Latin America

By Robert Corzine in Shanghai

British Petroleum is turning to the growth markets of Asia and Latin America to fuel its international expansion over the next decade.

The company, which announced an investment in a $2.5bn Chinese polyethylene joint venture last week, expected annual growth from its operations in Asia-Pacific and Latin America to be "well into double digits" over the next few years, said Mr John Browne, chief executive.

This powerful expansion would form the main engine of growth for BP over the next decade, and should propel those two regions to the point where they would account for about a quarter of the company's revenues by the early part of the next decade, added Mr Browne.

BP's programme of investments is central to the company's growth strategy in Asia, and could herald other large investments in the region as the company repositions itself in line with changes in the structure of worldwide energy and petrochemical demand.

Mr Browne said BP still expected its main traditional markets in the US and Europe to grow at annual rates of 6-8 per cent, with the US predicted to outperform Europe. But the company would need to achieve faster growth in Asia-Pacific and Latin America if it was to reach its corporate growth target of 8 per cent a year, he said.

Asia has long been seen by industry analysts as one of BP's weak spots and executives are sensitive to comparisons between its position in the region and that of Shell, the Anglo-Dutch oil group. Mr Browne said there were historical reasons why the company did not have a stronger position in the world's fastest growing energy market.

"BP started in the Middle East," he noted, while Shell's corporate roots were in Asia. "They have been here an awfully long time."

BP's Asian expansion has been hampered by factors outside its control, such as fluctuations in the political atmosphere in China, the region's largest single market, which have affected investment opportunities.

Recent investments in China began with a $20m licensing agreement. That was followed by a $200m petrochemical investment.

"Now we've gone to the next order of magnitude" with the Shanghai project, said Mr Browne. "That's the scale we need in order to shift our strategy in line with the world's demand shift."

Petrochemicals will form the main plank of BP's Asian strategy. But that would not preclude a move into refining. The company may use some of its chemical plants in the region to "reverse into refining" at the high end of the market, such as gasoline and jet fuel.

Price pressure on European producers is easing, reports **Stefan Wagstyl**

Steelmakers see end of hard times

The steep decline in European steel prices which caught domestic steelmakers by surprise late in 1995 seems to be over. Even though demand is flat, tough production cuts have helped manufacturers drive down stock levels.

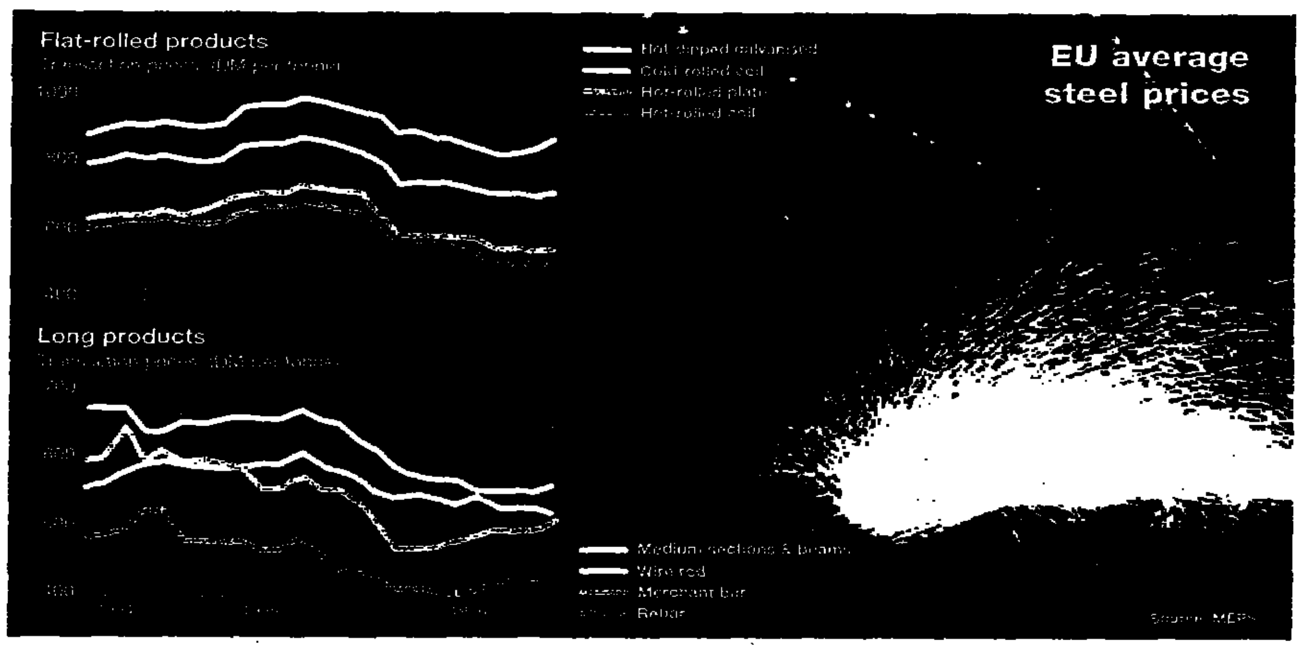
Prices have stabilised in the past two months after falls of up to 20 per cent in construction steel, 30 per cent for sheet metal and 40 per cent for some types of high-grade stainless steel. Few expect a rapid recovery in prices, but the apparent end of the downswing is increasing optimism among steelmakers for next year.

Since the summer, the price of merchant bars, used in construction, has risen about 5 per cent in Europe. Hot-dipped galvanised sheet metal, used in the vehicle industry, has risen 10 per cent.

Usinor Sacilor, the French steel group, says stocks have fallen to "minimum levels", so any rise in consumption should feed straight through to orders. "First we hope to see an increase in deliveries and then in prices," says Mr Guy Dollé, vice-president for strategy at Usinor. British Steel is said by traders to be more optimistic than at any time this year.

Although a few weeks' price data are not proof of a shift in sentiment there is little dispute that the worst seems to be over.

Steel markets are volatile, with prices swinging in line with economic cycles, often compounded by the activities of speculative stockbuilders. Prices fell sharply in the early 1990s but recovered in 1993-94. Fears that growth in east Asia might cause raw materials shortages encouraged speculative buying. Then, late last year, traders started cutting stocks, driving down prices.



Steelmakers reacted by cutting output. In the first half of 1996, production in the European Union fell 8.5 per cent to 74.3m tonnes. A cut of the same order is expected in the second half.

The cuts have been particularly severe in France and Germany, where output in the first half fell more than 9 per cent in comparison with 1995, and in Italy, where it was down 12.3 per cent. In the UK, production fell just 1.7 per cent – British Steel claims its costs are among the lowest in Europe so it can continue to make profits even with weak prices.

Usinor estimates the cuts have reduced stocks in western Europe from the equivalent of 85 days' consumption last autumn to near-normal levels of below 70 days. This has pushed down consumption in the year to date by about 8.5 per cent, compared with 1995. However, this includes the cuts in stocks. Allowing for these, the fall is about 1 per cent.

Producers expect a modest increase in consumption next year to 146m tonnes of crude steel from a forecast 140m this year, due mainly to a predicted increase in demand for steel from the motor industry. The outlook for construction steel remains patchy, with likely increases in commercial and residential building offset by continuing curbs on public spending on infrastructure.

Steelmakers' profits have fallen even faster than prices, albeit with a delay since most steel is sold at contracted prices which lag behind the open market. Many made big profits in the first quarter of 1996, although market prices were tumbling. By the same token, any recovery in the last quarter will not be fully reflected in profits until next year.

Most companies expect poor profits in the second half of 1996 followed by a moderate recovery in 1997. Usinor, which recently reported a 65 per cent drop in profits to FFr833m ($164.3m) for the first half of 1996, expects to do worse in the second half. Analysts believe it could make less than FFr1bn in 1996, but see a recovery to FFr1.8bn next year. This will still be well short of 1995's FFr4.42bn.

In Germany, Thyssen's net profits in the year to September 30 could fall 40 per cent from last year's DM751m ($507.4m). Krupp, which specialises in stainless steel, posted a 20 per cent fall in interim net income. For the year, the result is expected to decline up to 50 per cent from DM543m last year.

British Steel made record profits of £1.1bn ($1.7bn) in the year to March, as a result last year's high prices. This year's profits could fall 50 per cent, say analysts. Its interim results, due next month, are eagerly awaited for the evidence they will give of market conditions.

European steelmakers' shares are roughly midway between their recent peak in mid-1995, just before steel prices started falling, and their low at the end of 1995. But this is a difficult market to call. As one trader says: "In our industry, it takes so little to move prices."

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SocGen may sell equity and property assets

By Andrew Jack in Paris

Société Générale, the French banking group, is considering selling off a significant proportion of its share and property portfolios.

The board is discussing possible reductions in its FFr23bn ($2.8bn) equity portfolio, as well as in its large property holdings, both of which should give rise to significant capital gains. The move is partly in response to Anglo-Saxon investors' suspicion that the property and equity portfolio is too large for a bank.

The asset sales could total about a third of the value of the portfolio, although details of the divestment are unlikely to be decided until next year.

The liquidation of some of the bank's portfolio would be one way to provide cash to acquire a controlling stake in CIC, the state-owned bank which is being privatised. Société Générale is believed to have offered about FFr6bn for a 67 per cent stake in the bank. Mr Marc Viénot, chairman, has defended the equity portfolio, arguing it is about the right size, is profitable and could quickly generate cash for an acquisition.

The latest discussions are believed to be prompted by growing concern from leading figures including Mr Daniel Bouton, the chief executive officer who has been anointed as Mr Viénot's successor, about the market reaction to some of its investments.

A number of French banks – as well as their German competitors – have built up substantial equity portfolios, including Paribas, the financial group. Crédit Lyonnais, the state-owned bank, made ambitious acquisitions to develop its *banque-industrie* concept, but many of these participations triggered large losses and have been hived off for sale as part of its FFr135bn rescue package approved last year.

By contrast, Société Générale's portfolio has proved profitable, generating FFr500m-FFr800m in profits each year. It was built up in the late 1980s, as part of a strategy of cross-participation and alliances with friendly French companies in an effort to fend off a hostile bid.

Mr Viénot, who chaired a committee which produced an influential report on corporate governance in France last year, has called cross-participations undesirable, and the bank is considering unwinding some of these investments.

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UK's Karrimor cedes control to Italian group

By Roderick Oram, Consumer Industries Editor

Karrimor, one of the leading UK brands in mountain sports equipment, is to receive a £7m ($11m) capital injection from 21 Invest, the investment company of the Benetton and Bonomi families of Italy which will gain control.

Two acquisitions in recent years had doubled Karrimor's turnover to about £20m a year but had caused financial difficulties.

The group bought Phoenix Mountaineering, a maker of outer clothing, skiwear and tents, and acquired the trade and assets of a cycle accessories wholesaler.

"From a technical point of view, there is nothing wrong with Karrimor," said Mr Andrea Bonomi, managing director of 21 Invest. "It is the only UK company [in its field] with a complete product range."

While Karrimor has retained the loyalty of professional and amateur users, it has become increasingly uncompetitive on price.

"We stopped stocking their pannier bags five years ago because very good German ones cost less," said one London retailer.

Karrimor was founded 50 years ago by the Parsons family as a maker of cycle bags. It and is number one in the UK in rucksacks, number two in warm clothing and number three in outerwear and footwear.

In total, it has a 19 per cent market share, second only to Berghaus's 26 per cent. 21 Invest said new management would give Karrimor the financial and production skills to compete better against Berghaus, which is owned by Pentland Industries, the former owner of Reebok sports shoes. Given Karrimor's small size, it will remain separate from Benetton Sportsystem, which is one of the world's largest makers of skis, tennis racquets, rollerblades and other sports equipment, with turnover of $900m a year.

Benetton Sportsystem is a separate entity from the family's eponymous clothing empire. But Karrimor, which has only limited foreign sales, might use some Sportsystem distributors as it expanded abroad, Mr Bonomi said.

Karrimor was 75 per cent owned by the Parsons family and 25 per cent by Gartmore, the fund manager, and was chaired by Mr Mike Parsons, son of the founder.

Following the deal, he will be president and his family will retain a small stake, with 21 Invest holding the balance.

In addition to the Benetton and Bonomi families, 21 Invest's shareholders are the Seragnoli family, Banco Ambrosiano Veneto, Generali, the Italian insurer, and Deutsche Bank.

Emap head reveals talks with rebels

By William Lewis

Sir John Hoskyns, chairman of Emap, the media group which last week called an extraordinary general meeting to oust two dissident non-executive directors, has disclosed that he has been in long running talks with them in an attempt to persuade them to stand down.

It also emerged yesterday that Mr Robin Miller, chief executive, was earlier this year officially notified that he had been provisionally chosen to succeed Sir John as chairman.

Disclosure of Sir John's long running attempts to persuade Professor Ken Simmonds and Mr Joe Cooke – the two rebel non-executives – to stand down, and the provisional appointment of Mr Miller as the next chairman of Emap, help explain the dissidents' strong reaction to the changes to Emap's articles of association which were passed by shareholders at July's annual general meeting.

Prof Simmonds and Mr Cooke both publicly opposed the change to the articles, which made it easier for Emap directors to be ousted and removed the requirement for there to be a minimum of five non-executive directors on the board.

The row over the articles has worsened since the annual meeting, culminating in last week's calling of an extraordinary meeting.

The two non-executives are said to have been particularly concerned that they were not told of plans to change the articles before agreeing to Mr Miller being invited, provisionally, to succeed Sir John as chairman. Emap said yesterday that "there has been no definite decision as to Sir John Hoskyns' replacement".

In 1995 Sir John proposed a rolling programme in which four non-executives would step down in successive years, culminating in his own departure at Emap's annual meeting in 1998. However Prof Simmonds and Mr Cooke have rejected Sir John's proposals because they were concerned, on behalf of shareholders, to oversee the appointment of successors to Sir John and Mr Miller.

Sir John and Mr Miller are to begin visiting institutional shareholders this week in an attempt to win support.

A&L savers to get 250 shares

By Simon London

Savers with the Alliance & Leicester, the UK's fourth-largest building society, will receive a flat-rate allocation of 250 shares, worth an estimated £1,000 ($1,560), when it floats on the stock market next year.

Details of the Alliance's planned conversion from a mutual society to a limited company will be sent to its 3.2m savers and borrowers today.

The society is the first of three large building societies hoping to float before next summer to unveil the terms of its proposed conversion. Halifax, the largest UK building society with 9m savers and borrowers, plans to unveil details of its float in January, the Woolwich shortly after that.

In each case savers are expected to receive shares worth up to £1,000.

To qualify for Alliance & Leicester's free shares, savers need to have opened an investment account before December 31, 1995 and to have had a balance of at least £100 at October 14.

All qualifying savers will receive 250 shares regardless of when they opened their account or the amount they have on deposit.

The society believes this flat-rate distribution reflects the one-member, one-vote constitution of mutual societies.

The value of each share will depend on the market value of the company when it is listed on the stock exchange in April.

JP Morgan, the US investment bank advising on the float, said on the basis of current market conditions that the company could be valued at £2.8bn.

Writs against CIA due in TV media buying row

By Raymond Snoddy

Two large ITV companies, Yorkshire-Tyne Tees Television and Granada Media, plan to issue writs this week against CIA Group, Europe's second largest independent media planning and buying organisation.

The broadcasters are trying to recover money they believe is owed to Laser sales, Granada's television sales house, by CIA Medianetwork, CIA's main UK operator.

The action follows an independent audit of transactions between CIA and Laser by accountants KPMG which suggested, it is believed, that Yorkshire-Tyne Tees is owed about £800,000 and Granada £200,000. This is disputed by CIA, but a series of meetings have failed to produce a compromise.

An independent audit has also been carried out on transactions between CIA and TSMS, another of the three sales houses which now sell all ITV's £1.6bn a year airtime. TSMS, which is owned by United News and Media, believes it is also owed about £1m on behalf of the ITV companies it represents, and is considering legal action.

A number of large advertisers which are CIA clients, including Commercial Union, Daewoo, Lloyds and Wrigley, are expected to receive letters this morning, warning that from the January 1, Laser intends to withdraw both credit lines and recognition from CIA. TSMS may decide to take similar action against CIA, a quoted company whose worldwide billings are expected to top £1bn this year.

The row is part of what is known in the commercial television industry as "over-trading" – defaulting on promises made in terms of audiences or share of ITV revenue promised. Another factor is "agency deals", the pooling of advertiser's money to get better discounts. There is then scope for argument about who gets what discount.

One CIA executive said what was new in the latest dispute was the level of acrimony in an increasingly competitive business.

CIA will contest any writs and its position is likely to be that as the argument is over share of ITV revenue rather than finite sums, it will be difficult to demonstrate loss.

Some ITV companies believe the method of selling airtime in the UK should be changed to follow US practice, where deals are negotiated for specific clients.

Lloyds TSB planning £40m branch auction

By Simon London
Property Correspondent

Lloyds TSB, the banking group, plans to raise more than £40m next month from an auction of 108 branches, bringing to £250m the amount it has raised this year from high street property disposals.

Mr Hugh Stebbing, head of group property at Lloyds TSB, said sale and leasebacks would free capital for reinvestment in the group's core banking activities.

Although other clearing banks have pruned their branch networks, Lloyds TSB has taken the lead in releasing capital in this way.

Earlier this year it announced plans to buy shares it did not already own in Lloyds Abbey Life, the life insurance group.

Including the latest batch, Lloyds TSB will have sold 460 branches, about 16 per cent of its 2,800. In July it raised £50m from the sale to a single buyer of a portfolio of 150 branches.

The auction, to be conducted on November 21 by Healey & Baker, the chartered surveyors, marks the end of the current phase of the disposal programme.

However, Lloyds TSB has not ruled out further sale and leaseback deals in future.

Healey & Baker hopes the properties – on 15-year leases with upward-only rent reviews – will appeal to private investors as well as property companies.

Guide prices range from below £100,000 for the smallest branches to over £2m for large city centre offices.

The guide prices suggest rental yields at the asking price of between 8.5 per cent and 11 per cent, depending on the size and location of the property.

Taking advantage of sport's ever-increasing commercialisation

Patrick Harverson on the growing interest among institutions in sport as an investment

The establishment of the first specialist sports investment fund may have passed almost unnoticed in the fund management industry, but the birth of the Momentum Premier Sports Partners was a reflection of the growing interest among institutions in sport as an investment.

Premier Sports Partners, a Luxembourg-registered fund, was set up by Mr Michael Goldman, a sports-mad South African who runs the Momentum hedge fund group. He believed the time was right to create a fund to take advantage of the increasing commercialisation of sport.

For a minimum stake of $25,000, (£16,000), investors in Sports Partners can earn exposure to quoted British football clubs, including Manchester United and Tottenham Hotspur; to US and European sports equipment companies such as Callaway, the golf club maker, and Ski Rossignol; and to sports goods groups such as Adidas and Nike.

The fund has earned a return of 9.7 per cent since its launch. It would have fared even better if it had been more heavily invested in quoted football clubs. Since May – when the fund was launched – the shares of the seven listed clubs have risen by an average of 45.5 per cent, an astonishing performance when measured against the meagre 3.3 per cent gain recorded by the FT All Share index.

Shareholders in the two biggest clubs, Manchester United and Tottenham Hotspur, have seen their shares almost treble in value this year, as investors rushed to participate in a boom in the sport fuelled by sharply rising television, merchandising and sponsorship revenues.

It is this sort of performance that has attracted the attention of fund managers at blue-chip institutions, a growing number of whom – among them Mercury Asset Management, Schroders, Phillips & Drew, and Commercial Union – have invested directly in football shares.

FUND MANAGEMENT

Mr Bradley Mitchell, a fund manager who invests widely in football clubs for Commercial Union Asset Management, says he is happier investing in clubs individually, rather than through a specialist fund.

"The problem with sports-based investment funds is that there are so few actual quoted vehicles out there," he says. "You are mainly talking about football clubs, so any fund or trust of any size would have to invest in virtually every quoted club." This would put all of a fund's eggs in one basket, a dangerous move by any professional investor.

Mr Nick Knight is an economist at Nomura Securities who puts together the firm's index of quoted football clubs. He believes that as more clubs join the market the sector's capitalisation will grow. This will force institutions to start investing in the sector, which will push shares higher and, in turn, attract more investor interest.

He may be right. The number of quoted clubs is likely to grow from seven to about a dozen in the next year with several large clubs, among them Newcastle United and Sunderland, actively planning flotations. The newcomers will take the total value of quoted UK football clubs from just under £700m today to approaching £1bn.

For Mr Goldman, the theory behind investing in sports through a fund is a simple one. He believes there is a ready market among investors for sports funds, because so many people are enthusiastic and knowledgeable about the subject, and therefore would feel comfortable with the idea of investing in such vehicles.

The link between football clubs and supporter/investors is particularly strong. Shareholders in Marks & Spencer may shop at the store every week, but they are unlikely to know much about what is going on at the company. Yet fans of Manchester United will know an enormous amount about the team, the management, and the club. As one Scottish stockbroker said recently, a listed football club is the only company that reports to its shareholders every week.

Mr Goldman is so convinced that sports funds can work that he plans to launch a sports unit trust directly marketable to UK investors.

In the US, where there are hundreds of specialist funds concentrating on niche sectors, the sports investor is served by only one mutual fund. The imaginatively named Sportsfund, launched this summer, is managed by Forum Financial Services of Portland, Maine. The fund concentrates at least 65 per cent of its assets in companies that derive at least half their revenues from sports.

Only a few US sports franchises are publicly quoted, notably the Boston Celtics basketball team, but there are quoted scores of sports-related companies – including Callaway, Nike, and the snowboard maker Ride.

COMPANIES AND FINANCE

Fiat looks to Brazilian unit to lead growth

By Haig Simonian in Betim, Brazil

Profits at Fiat, the Italian vehicles group which has forecast lower earnings in its core European business, should be boosted by another strong performance by its big Brazilian subsidiary this year, in spite of greater competition in the local car market.

Fiat expects to earn about US$400m before tax in 1996, a result largely of the strong reception for its new Palio "world car", launched in April. The vehicle has rocketed to second place in the Brazilian car market, with output having just exceeded 100,000 units since the launch.

Mr Giovanni Razelli, head of Fiat's South American vehicles subsidiary, said he expected the group to increase its Brazilian market share of cars and light vans, now about 28 per cent, with the introduction of further variants of the Palio hatchback. "We expect it to be number one by the second half of next year," he said.

An estate car will be launched in February, while production of its four-door saloon will start at a new $600m factory in Argentina early next year. Versions of the Palio will eventually be built in up to 10 countries.

Although profits in Brazil this year will be below the peak of about $500m reached in 1994, it is expected that the quality of earnings will be much better. About $300m of this year's forecast profits will come from core industrial operations, and the remainder from financial activities.

By contrast, in 1994, when inflation was still rampant, about $300m came from finance. Earnings that year were also boosted by a $100m windfall from the government's short-lived decision to abolish duties on imported vehicles. That allowed Fiat and other manufacturers to bring in large numbers of cars from abroad to satisfy growth in demand.

The sharp growth of the Brazilian car market, allowing Fiat to lift sales from fewer than 100,000 units in 1990 to 420,000 vehicles last year, has prompted substantial new investment by the company.

Fiat has spent about $1bn in the past two years expanding production and modifying its Betim factory for Palio production, now running at 1,000 units a day. Annual output of the vehicle should reach 350,000 units in Brazil at full capacity.

Output at Betim is now running at 2,000 units a day, up from 800 a day in 1992, and should reach 2,200 next year – making it Fiat's single biggest plant in the world.

The company is now studying whether to import versions of the Palio to Europe, with a decision expected early next year. Obvious variants are the estate car and the pick-up which would not compete with existing Fiat products sold in Europe.

INTERNATIONAL NEWS DIGEST

Engineering revival in Japan

Sumitomo Heavy Industries and Kawasaki Heavy Industries, two of Japan's top shipbuilders and diversified engineering companies, reported better-than-expected profits revivals for the six months to September.

KHI, the most exposed of Japan's shipbuilders to exchange rate movements, reported a 51 per cent increase in recurring profits before tax and extraordinary items, to Y12.1bn ($9.8m) on sales down 1.8 per cent to Y375bn. Exports of motorcycles and machinery benefited from the yen's decline, said Mr Matthew Ruddick, equity analyst at James Capel Japan. The company exports 30 per cent of its annual turnover. KHI, however, disappointed the market's expectations by leaving its forecasts for recurring profits in the full year to March unchanged at Y32bn, up from Y27bn in the year to last March.

SHI had been expecting a Y2bn recurring loss in the six months to September, but reported a small profit of Y207m, against a Y2.08bn loss in the same period last year. Sales rose 16 per cent to Y123.2bn, a result of higher-than-expected orders. Accordingly, the company raised its profits forecast for the full year from Y4bn to Y6bn, a sharp recovery from the Y2.5bn recurring profits in the year to last March. *William Dawkins, Tokyo*

Icahn increases RJR holding

Mr Carl Icahn, the US corporate raider, and a group of investors have lifted their stake in RJR Nabisco, the US tobacco and food group, from nearly 6 per cent to 7.3 per cent, they said in a Securities and Exchange Commission filing. They also said they would continue to seek a spin-off of the food business.

Mr Icahn is believed to be trying to assemble an alternative slate of directors to put before RJR Nabisco's annual meeting next year. The filing calls for the appointment of a new chief executive, but Mr Icahn has not produced a candidate. *Richard Tomkins, New York*

Go-ahead for St George bid

The Australian Competition and Consumer Commission, the country's competition watchdog, has given a green light to the proposed A$2.65bn (US$2.1bn) bid by St George Bank for Advance Bank. Both are regional banks, based predominantly in New South Wales, although Advance now has interests in South Australia. The ACCC said it saw the deal as potentially "pro-competitive, as it will allow the merged entity, with strong operations in both NSW and South Australia, to compete more vigorously with the major banks in these areas". *Nikki Tait, Sydney*

SA shake-up for Royal Sun

Royal Sun Alliance, the UK-based insurance group, has merged its South African interests and disposed of its non-core businesses. The deal follows the merger between Royal Insurance and Sun Alliance in July, which left the group with two competing interests in South Africa. It will consolidate Royal Sun's South African businesses into a single investment vehicle and vest management control in an established local group.

The group has merged its 77.8 per cent stake in Protea Assurance (Prosure), with Mutual and Federal, in which it holds a 38.5 per cent shareholding. Mutual and Federal will take up Prosure's short-term business, boosting its gross premiums by 29 per cent to about R2.8bn ($603m) a year. *Mark Ashurst, Johannesburg*

Weakness in chips hits Japanese groups

By Michiyo Nakamoto in Tokyo

The sharp drop in semiconductor memory prices undermined the performance of Japan's integrated electrical manufacturers in the first half, but strong demand for information and communications equipment eased problems in the memory market.

All six Japanese electrical manufacturers which reported interim results last week suffered from plunging semiconductor memory prices. The price of current generation 16-megabit dynamic random access memory (D-ram) chips has fallen to as little as a quarter of what it was at the same time last year, while demand has been weak.

Fujitsu saw parent recurring profit decline nearly 28 per cent, while Hitachi and Mitsubishi Electric saw falls of 51 per cent and 36 per cent, respectively.

The weakness in the D-ram market has led Japanese semiconductor makers to lower sales forecasts for the full year, while most have also cut their planned investments in semiconductor manufacturing facilities.

Hitachi said it expected semiconductor sales to fall 11 per cent from last year, to Y850bn ($7.5bn), rather than remain flat as previously forecast. It is reducing capital investment in the business to Y150bn from an initially planned Y175bn.

In contrast to the slump in semiconductors, the companies enjoyed buoyant demand for computers, cellular phones and other information and communications equipment. Strong sales of PCs and telecoms equipment enabled Toshiba, for example, to offset lower semiconductor profits and report a 49 per cent rise in recurring profits.

Demand for telecoms equipment also helped some of the companies post gains. NEC, for example, saw its communications systems and equipment division rise 47 per cent, helping to lift overall consolidated sales 16 per cent from Y1,921bn to Y2,242bn. Group pre-tax profits rose 23 per cent from Y49.7bn to Y60.9bn, and net profits climbed 54 per cent from Y20.2bn to Y31.2bn.

Matsushita, which derives about 30 per cent of sales from communications and industrial equipment, saw buoyant demand for mobile communications equipment.

Fujitsu was hit by difficulties at its subsidiaries in the US and Japan. Charges for inventory writedowns at Amdahl, its US subsidiary, and for restructuring at FDK, a Japanese maker of electronic components, were behind an 87 per cent drop in net profits, from Y30.6bn to Y3.9bn. Group sales were up 19 per cent at Y1,962bn, but pre-tax profits fell 29 per cent to Y42.4bn.

● JVC, the audio and video equipment maker, reported a firm rise in parent recurring profits on the strength of cost-cutting and buoyant sales of its digital video camera. Recurring profits rose 20 per cent to Y3bn from Y2.5bn, on sales up 4 per cent at Y283.4bn.

Bayerische Vereinsbank upbeat at nine months

By Sarah Althaus in Frankfurt

Bayerische Vereinsbank, the German banking group, lifted operating profits after provisions by 17.5 per cent to DM1.03bn ($676.1m) in the first nine months, and forecast strong earnings growth for the full year.

Mr Albrecht Schmidt, chairman, said he expected operating profits to increase by 10-15 per cent in 1996, and hinted that the improved performance might lead to a dividend increase. "I am confident that . . . we will achieve double-digit growth in operating profits for the full year," he said.

The shares closed unchanged at DM56.27 on Friday. Analysts said they had expected slower profits growth than in the first half – when operating earnings rose 24 per cent – mainly because of comparisons with a particularly strong second half in 1995.

Commenting on takeover speculation following the acquisition by Deutsche Bank earlier this year of a 5.21 per cent stake in the bank, Dr Schmidt said Vereinsbank was determined to retain its independence.

He said he did not know whether Deutsche Bank had been increasing its stake over the past few months. "That is a question for Deutsche Bank," he said.

Deutsche Bank has said the acquisition in July was a defensive move to deter potential bidders, and that it had no immediate plans to increase the stake.

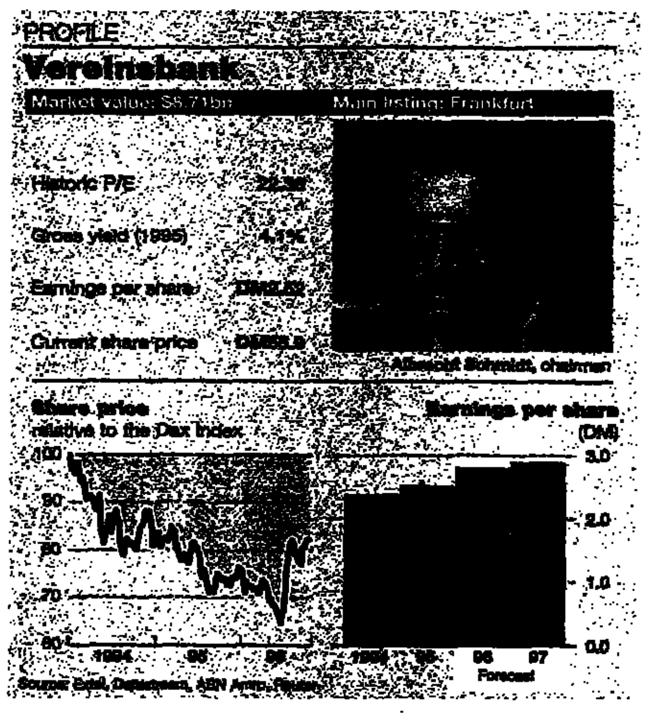
Vereinsbank said its nine-month profit rise was fuelled by a 7.7 per cent increase in net interest income, to DM3.4bn. Strong lending to the property sector – in which Vereinsbank is a market leader – slower cost growth and a sharp rise in commission earnings also helped.

Net commission income increased 16.4 per cent to DM886m. This reflected buoyant capital markets, with its trust and securities business contributing 48 per cent to total fee income.

Costs grew 4.6 per cent – compared with 5.9 per cent at the six-month stage – mainly because of spending on Advance Bank, the direct banking unit set up this year.

Own-account trading was below expectations, rising only 4 per cent to DM190m. This was largely because of a sharp fall in trading income at its Vereins- und Westbank subsidiary.

Mr Schmidt said provisions – up 17.4 per cent at DM580.6m – had been kept higher as a precautionary measure.



Third-quarter sales climb 17% at Cemex

By Daniel Dombey in Mexico City

Profits at Cemex, the world's third-largest cement company, rose for the third quarter, helped by a strong performance in the group's home country of Mexico. But analysts were concerned that margins might decline in the future.

Cemex racked up 6.4bn pesos ($806m) of sales in the quarter, an increase of 17 per cent on the same year-ago period. Operating profits jumped 28 per cent to 1.53bn pesos.

"On the whole, the results were good, but they were slightly disappointing in terms of the operating margin," said Mr Gordon Lee, analyst at Deutsche Morgan Grenfell in Mexico City.

While the company's operating margin of 24 per cent improved on the 22 per cent recorded for the same period last year, it was half a point below the second quarter's figure, nudged down by falling margins in operations outside Mexico.

Domestic sales, which accounted for 40 per cent of total revenues for the quarter, soared to 2.9bn pesos, up 49 per cent from the previous year. The company benefited from prices higher than a year ago, when Mexico's devaluation-inspired crisis was at its height. Cemex controls almost 60 per cent of the Mexican market.

Aided by favourable prices in Asia Pacific, Cemex's Mexican operations lifted export volume to 4.6m tonnes, 36 per cent up on the third quarter of 1995.

Businesses outside Mexico performed less well, with a 2 per cent drop in sales for Spanish operations, which provide 25 per cent of total revenues, and declining margins in the US and Venezuela.

The group's net income increased 42 per cent to 1.19bn pesos. Its percentage of debt to total capitalisation remained high, at 52.7 per cent. Cemex is mandated by covenant to keep debt to capitalisation at 55 per cent or below.

Health business drives rise at Rhône-Poulenc

By David Owen in Paris

Rhône-Poulenc, the French chemicals and drugs group, last week reported a 13 per cent increase in third-quarter net income, buoyed by strong performance from its health and agricultural divisions. The shares rose 3 per cent on Friday to FFr146.8.

The advance, which was slightly above analysts' expectations, came in spite of the impact of this month's voluntary recall of albumin products sold through Centeon, a joint venture between Rhône-Poulenc Rorer – Rhône-Poulenc's 68 per cent owned US drugs arm – and Germany's Hoechst.

This led to a third-quarter charge of FFr81m ($15.7m), without which net income would have been 25 per cent higher than year-earlier levels. Mr Jean-Pierre Tirouflet, finance director, said there would be a further impact on final-quarter figures, with the overall effect on 1996 net income – including the FFr81m disclosed yesterday – expected to be between FFr100m and FFr200m. He said he did not think the recall would affect 1997 results.

The rise in net income, from FFr669m to FFr756m, was reflected in a near 10 per cent improvement in earnings per share. These climbed from FFr2.12 to FFr2.33. The result was achieved on sales ahead more than 4 per cent to FFr20.47bn.

In the first nine months, net income rose 10.5 per cent from FFr1.96bn to FFr2.17bn, with earnings per share up just over 8 per cent from FFr6.19 to FFr6.69. Sales edged ahead to FFr63.75bn.

The group said it had divested FFr6bn of non-strategic assets by September 30. It declined to reveal its net debt level at the end of the latest quarter, but said gearing stood at 63 per cent. Net interest expenses climbed from FFr332m to FFr552m in the third quarter, and from FFr1.16bn to FFr1.69bn in the first nine months.

Analysts derived most encouragement from the 26.7 per cent improvement, to FFr1.76bn, in the operating performance of the health unit, the group's largest. This was achieved on sales up 8 per cent to FFr9.79bn.

Oracle, Netscape in tie-up

By Louise Kehoe in San Francisco

Oracle and Netscape, the world leaders in database and Internet software, have signed an agreement to market and distribute each others' flagship products.

Oracle will adopt Netscape's Internet browser program, Netscape Navigator, as the standard software for its Network Computers (NCs), which the company now expects to introduce in the first half of next year.

Netscape will offer Oracle's market-leading database software as the "preferred" database to buyers of its commercial Internet Web site software – rather than as one of several options as in the past.

Mr Larry Ellison, Oracle chairman and chief executive, said the Netscape software would provide users of NCs built using Intel microprocessor chips with "all the features and functions and [the same] user interface that they have on their personal computers".

Oracle plans to introduce its NCs in the first half of 1997. Already, competition is mounting. Today Microsoft is expected to announce an alliance with PC manufacturers aimed at developing a low-cost PC designed to compete with NCs.

Tomorrow, Sun Microsystems will introduce its "JavaStation" NC which runs software written in the company's Java programming language.

Oracle's choice of the Netscape browser appears to reflect a change of heart by Mr Ellison. Last month at an industry conference in Paris he declared that Netscape had "no chance" of winning the "browser wars" competition with Microsoft.

US steelmaker takes to the Net

By Stephen McGookin

US steelmaker Weirton has taken its corporate message into cyberspace in an effort to generate new export business and accept domestic orders outside established business hours.

The company's new Internet site (*www.weirton.com*) allows authorised users to review its product catalogue and place orders 24 hours a day.

To ensure that Weirton's Net service deals with only serious inquiries, there is an extensive verification procedure for new customers.

To bid for products, users need to register and complete a credit application. To register, individuals have to provide a banker's authorisation, five references – preferably from other steel firms – and forward a copy of their company's latest audited financial statement by mail or fax.

Once approved, the individual is given a password which allows them to place orders for products for which they are then billed conventionally.

The company, located in Weirton, West Virginia, says its existing customers can obtain a password by phone, while non-registered users can contact the company by e-mail with general queries.

Previously, online ordering via the Net has largely been the preserve of companies specialising in smaller, consumer products. Many leading technology companies are working to develop standards for secure electronic transactions.

According to Mr Patrick Stewart, Weirton director of management information services, the Web site "provides an excellent opportunity for us to improve our communications and customer service while extending our market reach". Mr A. William Giannini, export manager, said the Internet "will allow us to reach a lot more people in parts of the world where we have yet to penetrate aggressively".

FINANCIAL TIMES MARKETS THIS WEEK

Global Investor / Philip Coggan

Analysts' appalling record

It will be no secret to the experienced global investor that analysts at securities houses have conflicts of interest. Frequently their firm may have a corporate finance or underwriting relationship with the companies they cover, or their market-making arm may simply be long of the stock.

But it may still come as some surprise to see just how comprehensively analysts appear to favour their own firm's interests over those of their clients.

A recent paper shows that the recommendations of some analysts constitute one of the market's best contrary indicators.

The paper, by US academics Roni Michaely and Kent Womack, looks at the recommendations made by analysts about initial public offerings (IPOs) which their firms have taken public. It examines 391 IPOs which came to the US market in the 1990-91 period.

US securities laws state that underwriters cannot comment on valuation and provide earnings estimates for companies until 25 days after the IPO. Analysts employed by non-underwriters also tend to wait for this period to elapse before giving a view.

Nearly all these recommendations are likely to be positive. Michaely could not recall an instance of an underwriter giving a recommendation that was anything other than "buy". Independent analysts tend not to initiate coverage of a stock unless they think it is a "buy": if they feel the stock is overvalued, they are likely not to cover it at all.

However, the paper found significant differences between the background to, and effects of, the recommendations. One concerns the movement in price of the stock before the recommendation is made: "Stock prices of firms recommended by underwriters go down, on average, in the 30 days before a stock is issued, while those recommended by non-underwriters go up."

Michaely and Womack are understandably cynical about this difference, suggesting that underwriters may be attempting to give a "booster shot" to the fledgling stock.

The market at least partially discounts the underwriters' recommendations. In the immediate aftermath of the recommendation, stocks tipped by underwriters beat the market by 2.7 per cent; those endorsed by non-underwriters outperformed by 4.4 per cent.

Nevertheless, this small margin spectacularly fails to take into account the real difference in subsequent share price performance between the two categories.

The paper finds that stocks recommended solely by the underwriter underperformed the market by 18.1 per cent in the two years after the IPO, while stocks recommended solely by the analysts of non-underwriters beat the market by 45 per cent over the same period and shares tipped by both categories outperformed by 33 per cent. Most remarkably of all, stocks tipped by the underwriters' analysts underperformed stocks which received no recommendation from anyone.

It is easy to find reasons for this appalling record. The authors point out that "it is common for a significant portion of the research analyst's compensation to be determined by the analysts' 'helpfulness' to the corporate finance professionals and their financing efforts."

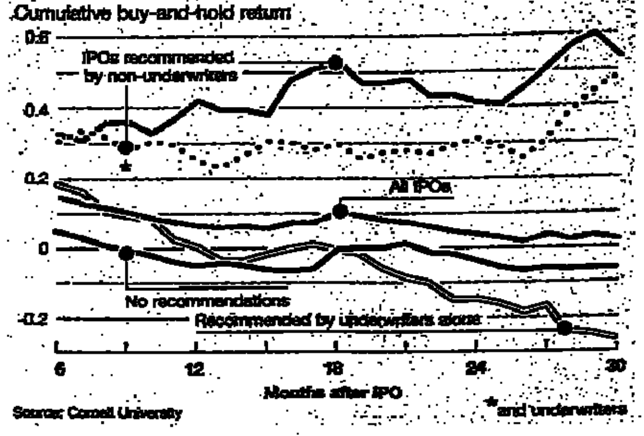
One wonders, in view of the above analysis, why investors take the recommendations of underwriters at all seriously. Michaely and Womack argue that "because information is noisy and the market cannot always clearly distinguish between honest mistakes and information manipulation (or cognitive biases), it is possible the market has not yet learned that analysts are biased when they recommend their own stocks."

How can one make money from this information? The obvious answer is to treat underwriters' recommendations with a bucket of salt. But Michaely even suggests that a successful investment strategy would involve selling short those stocks recommended by underwriters and buying those tipped by independents. History suggests this should work well over a 2-year period.

Conflict of Interest and the Credibility of Underwriter Analyst Recommendations. By Roni Michaely of the Johnson Graduate School of Management, Cornell University, and Kent L. Womack of the Amos Tuck School, Dartmouth College.

Not recommended buying

Cumulative buy-and-hold return



Source: Cornell University

Total return in local currency to 24/10/96

% change over period	US	Japan	Germany	France	Italy	UK
Cash						
Week	0.10	0.01	0.06	0.07	0.16	0.11
Month	0.46	0.04	0.26	0.30	0.69	0.49
Year	5.39	0.47	4.11	6.72	11.25	5.94
Bonds 3-5 year						
Week	-0.05	0.60	0.09	0.26	0.96	-0.19
Month	1.30	0.92	0.95	1.53	3.28	0.93
Year	4.87	3.84	6.45	13.26	24.58	9.17
Bonds 7-10 year						
Week	-0.16	1.16	0.09	0.21	1.32	-0.28
Month	1.83	1.53	1.28	1.97	4.68	1.55
Year	2.92	6.49	9.99	17.33	37.54	11.09
Equities						
Week	-0.8	-2.1	-1.6	-0.5	0.2	-0.9
Month	2.4	-0.9	2.1	3.7	4.7	2.2
Year	21.5	8.9	26.8	30.0	9.0	17.6

Source: Cash & Bonds - Lehman Brothers. Equities - FT/S&P Actuaries World Indices. The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman Sachs & Co. and Standard & Poor's.

COMPANY RESULTS DUE

Singapore Airlines to reveal increase

Singapore Airlines is today expected to show a sharp increase in net profit for the first half to September.

Analysts say aircraft sales will more than offset higher fuel costs – supported by strong growth in passenger traffic in the period, over and above an increase in capacity.

They gave no interim forecast, but for the full year to March 1997 indicated the airline's net profit would be about S$1.10bn-S$1.19bn (£780m-£850m). In the year to March 1996, the airline had a profit of S$1.02bn.

Many analysts said that they would be looking closely at fuel costs, which would help to indicate second-half performance and were also more reflective of its organic operations.

Merrill Lynch has forecast a 14 per cent increase in the price the airline pays for fuel, which translates into an additional cost of S$120m.

AFX reports from Singapore

■ **BMW and Daimler-Benz**, the German car manufacturers, are expected to report nine-months sales in the next two weeks showing a continuation of the positive trend which was established in the first half.

Analysts said the sales boost came from the relative weakness of the D-Mark, compared with a year earlier, combined with stronger-than-expected domestic new registrations. New-car registrations in the first nine-months were up 6 per cent from a year earlier, at 2.9m.

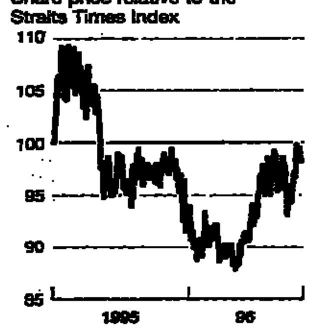
BMW is expected to report nine-months sales some time this week and Daimler-Benz on November 7. Neither company is expected to release earnings figures.

Mr Hans-Joachim Koenig, an analyst at WestLB, said the car market was now a lot stronger than had been expected at the start of the year: "We are looking at growth rates of between 5 per cent and 6 per cent in the full year, even if the second half is relatively weak as is traditionally the case."

AFX reports from Frankfurt

Singapore Airlines

Share price relative to the Straits Times Index



Source: Datastream

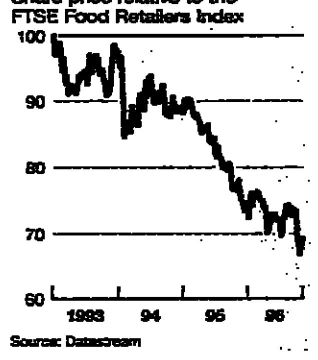
■ **DSM**, the Dutch chemicals group, is expected to report third-quarter net profits of between Fl 186m-Fl 224m ($107m-$128m) tomorrow, down from Fl 234m a year earlier.

Mr Andreas de Groot, an analyst with MeesPierson, said the expected 20 per cent year-on-year decline was caused by reduced prices and margins on hydrocarbons and polymers. This was a continuation of a trend set in the second-quarter.

Mr de Groot forecast net profit of Fl 186m, or Fl 6.10 a share.

J Sainsbury

Share price relative to the FTSE Food Retailers Index



Source: Datastream

Mr Marius Andre of Amstgeld expected third-quarter net earnings to show a smaller decline, to Fl 220m or Fl 7.35 a share.

He thinks the usual summer weakness in hydrocarbons and polymers had been less evident this year.

AFX reports from Amsterdam

■ **J Sainsbury's** interim results on Wednesday have been well flagged by the series of profit downgrades in recent months. Pessimism over the rate of like-for-like sales growth at the UK supermarket chain has led analysts to mark down expectations by about £25m to some £400m (£451m).

■ **Pilkington's** half-year statement on Thursday will be closely studied to whether the UK glass manufacturer has managed to make stick the 10 per cent price rises across Europe announced last May.

The figures will be blighted by the combined impact of weak economies in continental Europe and a hard winter that halted building work in Germany.

The company has also been under pressure from car makers around the world, who are demanding that suppliers, Pilkington among them, cut prices. But it may have gained some relief from restructuring its European building products and US automotive businesses to cut costs.

BZW, joint broker, is expecting pre-tax profits of £75m, down from £104m during the same 1995 period. But it expects the dividend to rise from 1.75p to 1.95p.

■ **Body Shop**, the UK cosmetics group, is expected to show a substantial gain in interim profits on Thursday. The market is forecasting pre-tax profits of about £11m, against last year's £9.1m, on a 15 per cent increase in sales. Much of the improvement can be attributed to the absence of last year's exceptional charges, but analysts are hoping to see an improvement in US trading.

■ **Thames Water** kicks off the interim reporting season in the water sector tomorrow. Analysts are expecting some details about its alliance with London Electricity.

Pre-tax profits are expected to be about £190m, a 15 per cent increase on the same period last year, giving earnings of about 43p.

■ **BAT Industries** is expected to report on Wednesday a 13 per cent increase in pre-tax profits for the nine months to September, to £2.05bn, including some small gains from disposals. Tobacco will generate a further moderate increase, but in the US higher selling prices are likely to be offset by higher marketing expenditure. In financial services, Farmers, its US division, will be well ahead, but Eagle Star, at a low point in the UK underwriting cycle, is likely to report lower profits.

INTERNATIONAL EQUITIES By Michael Lindemann

Cold calling by Deutsche Bank

If last week is anything to go by, Deutsche Telekom shares are likely to be an exciting stock to watch.

Last Monday Deutsche Telekom, the state-owned telephone utility, which is due to launch its DM15bn primary issue next month, announced a price range for its shares.

Just minutes afterwards Mr Ron Sommer and other members of the Deutsche Telekom management board watched them race up to DM39 (£16.90) in the unofficial "grey" market.

Since Deutsche Telekom is still hoping to be able to set a price of DM30, the news of the sudden jump in the share price could hardly have augured better for the issue's prospects.

Later in the week the shares drifted lower, settling at DM37 on Tuesday, DM36 on Wednesday and about DM32.90 on Thursday evening. Dealers in Frankfurt were then surprised the following morning to see the share had again picked up, ending the day at about DM34.20.

According to bankers in Frankfurt one of the reasons for the sharp rise in price on Friday was the issue of a covered warrant by Deutsche Bank, which is jointly-coordinating the global offer in the shares. The warrant permitted investors to buy the shares at the pre-set price.

This so-called strike price was to be the price at which the shares begin trading in Frankfurt on November 18. The warrant was due to expire on December 19, 1997.

Deutsche Bank, however, quickly withdrew the warrant and subsequently conceded that there had been some "misunderstandings".

Yesterday, the bank accepted that the action is forbidden under guidelines set down by the Securities and Exchange Commission, the US regulator. These guidelines bind members of banking consortia placing shares internationally.

The episode has not impressed marketmakers in Frankfurt. One Frankfurt banker said that the Deutsche Bank personnel involved "had all hell to pay."

A local dealer added: "Had it been anyone other than Deutsche Bank, they would have been kicked straight out of the consortium. Because it was Deutsche Bank nothing happened."

Meanwhile, Deutsche Telekom's shares are selling faster than most people had dared to expect.

The roadshows, which began last Tuesday, have travelled around Germany but have so far made only one stop abroad, in Switzerland.

Already, however, the tranche for German institutional investors has been subscribed two and a half times, so concerned are the institutions that they will not get enough shares.

"After three days we can put our feet up and relax," one banker said. "The issue has already been sold."

Deutsche Bank and the other banks handling the issue hope the reception will be equally warm at other venues around the world, where the Deutsche Telekom roadshow makes its stops.

Whether that will be the case remains to be seen, especially in the US – the second most important market for Deutsche Telekom shares, which expected to take up 15 per cent of the issue.

About 65 per cent has been earmarked for the German market. Deutsche Bank has so far declined to specify how that tranche will be divided between institutions and small retail investors.

FT/S&P ACTUARIES WORLD INDICES

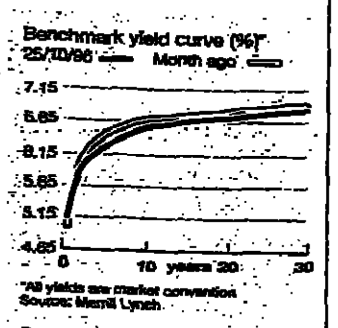
The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International Limited and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

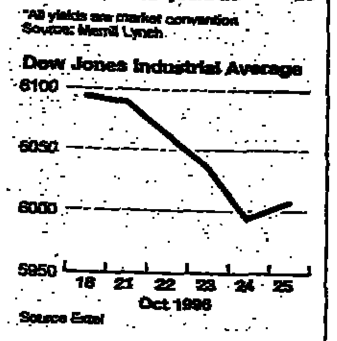
NATIONAL AND REGIONAL MARKETS	FRIDAY OCTOBER 25 1996								THURSDAY OCTOBER 24 1996					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	%chg since 29/12/95	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 29/12/95	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (78)	211.85	11.5	195.80	151.84	167.79	177.92	4.7	4.28	216.14	201.37	154.22	171.11	181.41	215.14	179.98	181.32
Austria (24)	179.56	2.9	165.96	128.70	142.21	142.11	9.5	1.98	180.92	168.55	129.09	143.22	143.12	195.04	158.36	171.80
Belgium (27)	220.56	5.5	203.85	158.06	174.88	170.64	12.4	3.91	220.89	205.80	157.61	174.86	170.89	221.99	193.45	195.60
Brazil (28)	181.84	31.8	168.07	130.33	144.02	343.79	39.3	1.78	183.97	171.40	131.26	145.64	347.44	189.70	123.97	142.81
Canada (116)	179.57	21.0	165.97	128.70	142.22	174.75	19.2	2.06	179.71	167.48	128.23	142.27	175.12	180.93	135.78	135.83
Denmark (30)	331.38	14.8	306.26	237.49	262.44	263.38	21.0	1.75	332.26	309.55	237.05	263.02	263.74	336.30	276.89	285.47
Finland (23)	219.25	17.2	202.64	157.14	173.65	209.86	23.1	2.38	220.10	205.05	157.04	174.23	211.19	230.56	171.73	230.56
France (93)	202.03	12.6	186.73	144.80	160.01	163.00	18.4	2.98	201.07	187.33	143.46	159.17	162.18	202.03	167.70	171.01
Germany (58)	179.31	9.5	165.72	128.51	142.01	142.01	16.6	1.74	179.66	167.40	128.20	142.24	142.24	181.04	155.66	160.03
Hong Kong (59)	463.23	19.5	428.14	332.01	366.88	459.84	19.5	3.32	466.40	434.53	332.78	369.22	463.00	470.59	354.67	378.58
Indonesia (27)	205.34	–	189.78	147.17	162.63	283.16	–	1.72	207.48	193.30	148.04	164.25	285.93			
Ireland (16)	310.96	21.7	287.40	222.87	246.28	271.09	20.7	3.32	308.70	286.53	220.97	245.17	271.39	313.15	241.27	248.48
Italy (58)	77.65	5.3	71.77	55.65	61.50	88.30	1.1	2.33	77.32	72.03	55.17	61.21	88.25	84.53	67.22	68.73
Japan (480)	138.81	-10.4	128.30	99.49	109.94	99.49	-1.5	0.77	140.66	131.05	100.36	111.35	100.36	164.68	137.75	149.14
Malaysia (107)	586.17	20.8	541.78	420.12	464.24	565.81	19.3	1.16	587.74	547.57	419.35	465.27	566.76	587.74	425.77	468.65
Mexico (27)	1172.32	13.2	1083.51	840.23	928.47	10177.17	16.6	1.35	1206.88	1124.20	860.96	955.24	10316.40	1325.65	791.99	946.21
Netherland (19)	312.69	14.7	289.00	224.11	247.65	243.87	22.2	3.03	311.46	290.19	222.24	246.57	242.85	313.59	251.61	258.42
New Zealand (15)	90.82	14.0	83.94	65.10	71.93	68.56	6.0	4.00	91.93	85.65	65.59	72.78	69.68	94.35	75.94	81.62
Norway (35)	263.68	14.0	243.70	188.98	208.83	230.81	16.4	2.20	264.67	246.58	188.84	209.62	231.88	265.73	222.24	225.42
Philippines (22)	187.78	–	173.56	134.59	148.72	245.89	–	0.65	192.81	179.63	137.57	152.83	252.51			
Singapore (43)	384.72	-5.5	355.57	275.73	304.69	251.13	-5.4	1.11	381.62	355.54	272.29	302.10	249.06	465.21	361.94	369.41
South Africa (44)	339.27	-11.9	313.57	243.16	268.70	342.78	11.6	2.24	343.78	320.26	245.27	272.13	344.81	437.76	314.20	366.19
Spain (37)	189.75	14.9	175.37	136.00	150.28	184.32	21.4	3.19	190.09	177.09	135.63	150.48	184.64	190.09	145.15	147.98
Sweden (46)	396.90	27.2	366.83	284.47	314.34	387.40	28.5	2.21	396.52	369.49	282.20	313.11	385.42	398.97	284.19	314.72
Switzerland (37)	243.77	3.3	225.30	174.72	193.07	190.77	13.3	1.55	244.18	227.49	174.22	193.30	190.41	254.34	219.07	222.43
Thailand (45)	117.24	-30.3	108.36	84.03	92.85	116.06	-29.4	2.96	117.17	109.16	83.60	92.75	115.89	193.96	112.17	181.84
United Kingdom (213)	259.83	12.6	239.96	186.06	205.63	239.96	9.0	3.93	256.17	238.68	182.78	202.79	238.88	260.57	222.25	225.41
USA (623)	284.97	13.4	263.38	204.24	225.69	284.97	13.4	2.09	285.54	266.02	203.73	226.04	285.54	289.37	236.38	238.78
Americas (794)	260.65	13.9	241.08	186.95	206.59	219.28	13.9	2.08	261.44	243.57	186.54	206.97	219.78	264.55	215.17	217.38
Europe (718)	224.16	11.8	207.18	160.66	177.54	193.53	13.9	2.96	222.93	207.69	159.06	176.48	192.96	224.79	191.44	194.12
Nordic (136)	337.19	22.2	311.59	241.63	267.00	289.57	23.9	2.16	336.84	313.82	240.34	266.65	289.09	339.22	261.13	285.82
Pacific Basin (876)	154.96	-6.2	143.24	111.06	122.74	112.19	0.7	1.25	156.89	146.16	111.94	124.20	113.17	177.01	148.86	159.75
Euro-Pacific (1594)	183.69	2.1	169.78	131.66	145.48	142.85	6.9	2.12	184.28	171.69	131.49	145.89	143.25	190.57	165.57	170.49
North America (739)	278.66	13.8	257.55	199.72	220.70	277.72	13.7	2.09	279.20	260.12	199.21	221.02	278.27	282.57	230.17	232.48
Europe Ex. UK (505)	200.31	11.0	185.14	143.57	158.65	166.42	16.8	2.40	200.13	186.45	142.79	158.43	166.17	200.84	170.51	173.22
Pacific Ex. Japan (396)	297.17	12.3	274.68	212.99	235.36	256.41	10.0	2.90	299.79	279.30	213.90	237.32	258.59	299.79	243.39	254.55
World Ex. US (1809)	185.66	2.6	171.59	133.06	147.04	147.93	7.7	2.11	186.32	173.58	132.94	147.49	148.37	191.55	167.96	172.28
World Ex. UK (2219)	212.62	6.5	196.52	152.39	168.40	182.12	10.2	1.90	213.62	199.02	152.41	169.10	182.74	216.41	185.61	189.74
World Ex. Japan (1952)	257.98	12.6	238.43	184.90	204.31	243.32	13.6	2.43	258.05	240.41	184.12	204.28	243.57	260.37	217.28	218.27
The World Index (2432)	216.66	7.1	200.24	155.26	171.59	187.32	10.1	2.10	217.28	202.43	156.09	172.01	187.90	220.11	188.87	191.94

 Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 132.22 (Local). Thailand and Americas: Oct 31, 1994 = 180.44 (US $ Index), 184.07 (Pound Sterling) and 149.94 (Local). Indonesia and Philippines June 28 1996 = 214.14 (US $ Index), 204.33 (Pound Sterling) and [illegible] (Local). CONSTITUENT CHANGE DURING THE WEEK ENDING 25/10/96: Name change: Mallinckrodt Group to Mallinckrodt (USA). CONSTITUENT CHANGE WITH EFFECT 28/10/96: Further to previous announcement, share weighting increase: E.N.I. (15% weighting to 28.75% weighting) (Italy). Any further weighting changes will be announced in due course.

MARKETS: This Week

NEW YORK By Richard Tomkins





Last week was a relatively quiet one in US markets with little economic data to excite traders' interest. This week, however, should be enlivened by a heavy schedule of growth and inflation indicators, culminating in the publication of the closely-watched employment figures on Friday. Investors will be looking for reassurance that inflation remains under control, making it unnecessary for the Federal Reserve to push up interest rates at its next meeting on November 13.

The flow of figures begins with tomorrow's publication of the third-quarter employment cost index, the Fed's preferred measure of labour costs. The consensus estimate of economists surveyed by MMS International is that the index will have risen by 0.8 per cent, the same as last time. Any figure larger than that could shake the market's confidence.

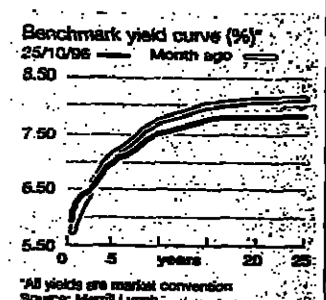
Wednesday should bring the figures for third-quarter gross domestic product, with analysts expecting a weak – and thus market-friendly – outcome. With businesses accumulating inventories in the face of weak sales, the rate of growth in real GDP is expected to have fallen from 4.7 per cent to 2 per cent.

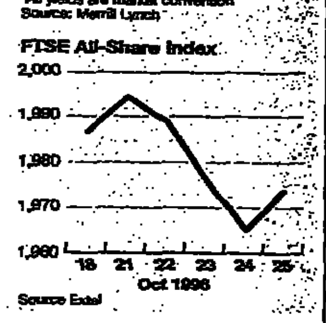
The highlight of the week will be Friday's publication of the employment report for October.

The previous employment report took the markets by surprise by showing a decline of 40,000 jobs, and other labour market indicators in the report showed contradictory trends.

Analysts are convinced that the September decline was an aberration, and are looking for a rebound in the figures for October.

LONDON By Philip Coggan





International markets will face their monthly test in the form of the US non-farm payroll figures this week, and the UK, one of the more slavish followers of Wall Street, will be paying particular attention.

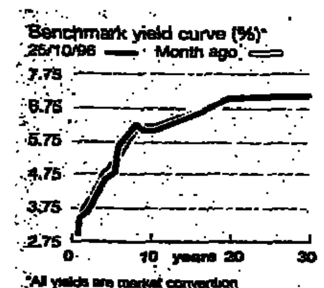
Concern about Wall Street has been one of the main factors inhibiting London this year. There were signs last week that equity investors might be locking in some profits, now that the FTSE 100 index has passed 4,000. Traders noted the marked purchasing of put options (giving the right to sell the index at a certain level) in the derivatives market.

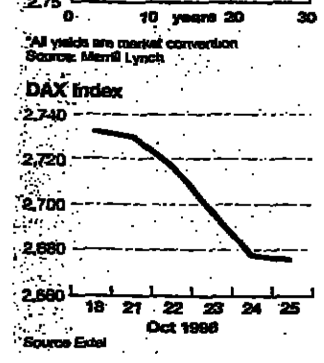
However, markets may get an early lift today if some of the bid rumours floating about on Friday are confirmed, with the main focus being on the regional electricity sector.

On the economic front, the main event will be the monthly monetary meeting between Mr Kenneth Clarke, the chancellor, and Mr Eddie George, the governor of the Bank of England, on Wednesday. Mr George is expected to push, once again, for a rate rise and the recent strong economic data have been going his way. But it would be surprising if Mr Clarke gave way before the election, unless the financial markets were putting him under severe pressure.

Several leading companies are reporting numbers, including third-quarter figures from Shell and BAT Industries and interims from J. Sainsbury, Body Shop, Pilkington and Thames Water. The interim results season has passed largely without any real shocks, and investors will be looking to see if the recent economic rebound is reflected in chairmen's statements.

FRANKFURT By Wolfgang Münchau





The German markets witnessed a mood swing in the middle of last week and then saw it swing back on Friday, as senior Bundesbank officials got themselves into a muddle over whether interest rates would be going down or not.

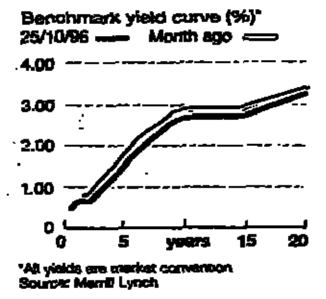
Mr Otmar Issing, chief economist of the Bundesbank, sent bonds and equities on a downward path with a comment in a television interview that "key rates are at a historic low here and nothing more is to be expected or necessary". Mr Ernst Welteke, a fellow member on the Bundesbank's central council, said on Friday that "a repo [securities repurchase rate] cut is still possible depending on developments".

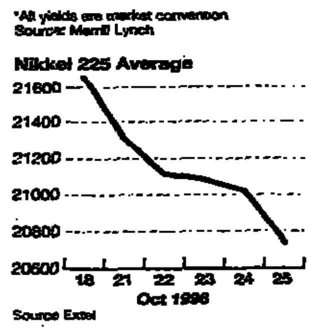
Mr Issing himself appeared to soften his tone on Friday with a comment that reinserted some uncertainty after his rather blunt statements two days earlier, prompting a recovery in the market, the December bund futures contract rising from 99.18 to 99.55. Mr Issing's comments also hit the equity markets, along with other special factors.

The most important was the 25 per cent drop in the shares of SAP, the business software maker, which the markets had previously looked upon as the quintessential German growth stock. The company has had a disappointing third quarter, and it may well bounce back in the fourth quarter, but investors have become less glary-eyed in the process.

On Thursday, MAN, the commercial vehicles and printing group, also reported disappointing results, which did not help market sentiment. Quite a bit of froth came out of the markets last week.

TOKYO By Gwen Robinson





Political uncertainty and continuing concerns about the economy in the wake of the October 20 general election will most likely keep bond and equity markets moving along sharply divergent paths, at least until the expected November 7 special parliamentary session to confirm the new prime minister.

Investors will be assured of policy continuity under an administration dominated by the conservative LDP, as in the previous ruling coalition. But many fear that the party's return to power in a greatly strengthened position may slow the pace of promised deregulation and administrative reform.

By the end of last week, the Nikkei 225 average had lost 872.33, or 4.21 per cent, from the previous week's finish to close at 20,739 and the broader-based Topix index of all first-section stocks fell 2.8 per cent. For the short term, analysts forecast that the 225 index will stay in a narrow range between 20,500 and 21,500. Over the next six months, however, analysts do not think the election significantly changes the bullish outlook.

Long-term Japanese government bonds are expected to continue on the high side this week amid a favourable supply-demand environment. Key economic indicators to be released this week include September industrial production, which is expected to show a modest month-on-month gain. Unemployment figures, due out mid-week, should show continued growth in jobs. While wage growth remains weak, positive trends in employment and liquidity growth are believed to be contributing to a recovery in personal consumption.

COMMODITIES By Susanna Voyle

Oil focus falls on inventories

The oil markets will be keeping a closer watch than normal on the weekly inventory figures due to be released tomorrow and Wednesday.

The US government has been encouraging refineries to increase production – and markets are waiting to see what effect this will have.

Mr Lesley Nicholas of GNI said the focus of interest remained the heating oil and gas markets, as they have driven crude prices higher over recent weeks.

Analysts see the price for Brent Blend for December delivery – the global crude oil benchmark – stuck around the $24-a-barrel mark, unless it is moved by sudden cold snaps.

"It looks like we are going to have relatively milder weather over the next couple of weeks and people are less keen to drive the market higher," said Mr Nicholas. "But if there is a cold snap prices could rally again." Earlier this month Brent prices briefly broke through $25 – an important psychological barrier – driven by high demand for refined products.

● Metals experts in Beijing will be keen to discover details about the level of Chinese copper stocks and what the authorities intend to do with them. The industry began gathering in the Chinese capital yesterday for the first day of Metal Bulletin's third China metals conference, which finishes tomorrow.

● Events this week include a London conference on risk management in European agriculture.

Delegates at the two-day meeting, which starts today, will hear about coming changes in Europe's agricultural policies, moves to global competition, over-the-counter commodities derivatives and the changing environment at the London Commodity Exchange after its recent merger with Liffe.

Speakers from the US will talk about the role of the Chicago Board of Trade in global risk management and the possibility of creating new European exchanges.

OTHER MARKETS Compiled by Jeffrey Brown

PARIS

A four-day week, end-of-month book squaring, and little in the way of French corporate news is expected to lead to a week of relatively subdued trading on the Paris bourse.

The market is closed on Friday for All Saints' Day along with Milan, Madrid and Brussels. The only results statement of any size looks to be nine-month sales today from Air Liquide.

If there are potential wild cards, they appear to congregate around Thursday when the October futures contract expires on the Matif, and the Bank of France monetary policy council meets.

Futures expiry volatility for equities is usually less marked than in London, since the Matif contract is shorter – one month, against three for Liffe futures – but it can lead to a slightly fraught session.

Unless the October unemployment and August trade data put up unexpected fireworks, the economic debate is going to remain in low gear. However, there was some betting among analysts last week that the Bank of France might trim its repo rate on Thursday.

Oil group Total meets institutional investors in London tomorrow. SBC Warburg moved from "buy" to "hold" on the stock last week, but Société Générale, which is hosting the occasion, remains a buyer.

AMSTERDAM

Blighted last week by disappointing results from Philips and a profits warning from PolyGram, the Amsterdam bourse faces further tests this week with statements coming from more stock market heavyweights.

DSM, Royal Dutch and KNP BT all report third-quarter figures, starting tomorrow with DSM, which has been having a tough time lately in commodity chemicals. UBS expects the third-quarter results to come in 30 per cent below last year's outturn

Royal Dutch and KNP BT report on Friday.

STOCKHOLM

Company results remain the main focus of attention in Stockholm, where the third-quarter season is now in full swing. Profits are due from leading cyclicals SSAB, SCA and Electrolux; and from a number of growth stocks, notably electronics and telecoms equipment leader Ericsson.

Most analysts are going for earnings growth of around 20 per cent from Ericsson. There should be good numbers, too, from the string of financials due to report. Nordbanken and Svenska Handelsbanken weigh in on Wednesday and tomorrow, respectively.

Elsewhere in the Nordic bloc, there are results due from Den norske Bank and Nycomed. DnB puts out a third-quarter on Thursday. Drugs group Nycomed reports the same day.

BOMBAY

Indian share markets face an uncertain outlook after the wild swings sparked last week by the central bank's easing of monetary policy, *writes Tony Tassell.*

In the end, the BSE 30 index closed 3.1 per cent higher over the five days, but it was touch and go at times, and analysts are split on whether the rise was a temporary blip on a longer-term slide or whether there is still some upside left. They said a flurry of first-half results this week from leading companies could lead to additional volatility.

Among the companies reporting are motor companies Bajaj Auto, Tata Engineering and Locomotive, and Mahindra & Mahindra. Steelmaker Tata Iron and Steel is also expected to post interim figures.

InvesTrust, the broker, feels there is scope for a further rise in the market and that upcoming results could be the signal for renewed buying.

CURRENCIES By Simon Kuper

Sentiment hangs on release of data from the US

This week will reveal more about the state of the US economy and the likely trend of interest rates. A mountain of US economic data is due, and, with the markets expecting the Federal Reserve to maintain rates at current levels for the next few months, any new signs of inflationary pressure could change sentiment.

If the data remain favourable, the dollar could soon breach the so-called "Bentsen level" of Y113.6, last reached in January 1994. The US currency closed at Y113.4 in London on Friday.

The US employment cost index comes on Tuesday. Third-quarter gross domestic product growth – expected to have slowed to an annualised 2 per cent – appears the day after, and the October non-farm payroll with average hourly earnings on Friday.

The payroll figure is expected to show job growth of about 175,000, as September's surprise 40,000 fall is widely regarded as a blip.

Last week, with little US economic news until the durable goods orders figures on Friday, the dollar mainly reacted to the yen and the D-Mark. It finished the week at a 33-month high against the yen, but has been trading in a narrow range against the D-Mark.

In the UK, Mr Kenneth Clarke, the chancellor, and Mr Eddie George, governor of the Bank of England, will resume their debate over interest rates when they meet on Wednesday.

Mr George is likely to ask Mr Clarke to raise rates, as recent figures – including third-quarter GDP growth of 0.8 per cent reported on Friday – have shown economic growth accelerating rapidly. Mr Clarke is likely to refuse. Any increase could fuel further rises in sterling, which closed at DM2.444 and $1.604 in London on Friday.

During the week, Germany is expected to release slightly higher September industrial production data and July retail sales figures.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
C&W (UK) Bell (Canada)/ Nynex (US)/Videotron (Canada)	Merger	Telecoms	$8bn	Creating UK cable's biggest
Hershey Foods (US)/ Huhtamaki (Finland)	Asset swap	Confectionery	$550m	Hershey refocusing
Banco Santander (Spain	Invermexico (Mexico)	Banking	$378m	Foreign buying continues
Banco Central Hispano (Spain)	Banco de Colombia (Colombia)	Banking	$200m	Stake size to be settled
Unilever (UK/N'lands)	Lyons Irish Holding (Ireland)	Tea distribution	$156m	Minority offer formally final
Primark (US)	ICV (UK)	Information services	$105m	Competition for Reuters
Premier Oil (UK)	Discovery Petroleum (Australia)	Oil & gas	$74m	Discovery advises rejection
Amersham International	Nihon Medi-Physics (Japan)	Pharmaceuticals	$67m	Stake now 50%
Smiths Industries (UK)	Leland Electronics	Aerospace	$30m	Cash & debt deal

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, October 25, 1996. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	7619.24	4750.00	3118.03	4189.27
Albania	(Lek)	173.398	108.100	70.9597	95.3389
Algeria	(Dinar)	89.3828	55.7232	36.5782	49.1461
Andorra	(French Fr)	8.2501	5.1433	3.3762	4.5361
Greece	(Drachma)	383.168	238.875	156.804	210.676
Greenland	(Danish Krone)	9.3744	5.8442	3.8363	5.1543
Grenada	(E Carib $)	4.3310	2.7000	1.7724	2.3813
Guadeloupe	(Local Fr)	8.2501	5.1433	3.3782	4.5361
Guam	(US $)	1.6041	1	0.6564	0.8820
Pakistan	(Pak. Rupee)(3)	64.2902	40.0799	26.3095	35.3485
Panama	(Balboa)	1.6041	1	0.6564	0.8820
Papua New Guinea	(Kina)	2.1360	1.3316	0.8741	1.1744
Paraguay	(Guarani)	3336.42	2080.00	1365.37	1834.46
Peru	(New Sol)	4.1281	2.5735	1.6893	2.2697
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

ATHENS STOCK EXCHANGE Oct 21st - Oct 25th 1996 GREECE

				GDP (USD bn) 96e	121.93
ASE INDEX	922.58	P/E (after tax) 96e/95	11.3/12.5	Per Capita Income (USD)	11,724
%Chg (2/1/96)	2.09	EPS GROWTH (%) 96e	13.2	Inflation Rate (% Y.O.Y. September 96)	8.50
Yearly High	1026.02	P/E 96e/EPS GROWTH (%)96e	0.86	October 12 M T-Bill rate (%)	12.70
Yearly Low	870.86	P/CE 96e/95	8.4/9.0	1-Month Athibor (%)	12.69
WEEKLY VOL. (USD m)	146.52	P/BV 96e/95	2.4/2.9	GRD/US$	238.69
%Chg (Prev. Wk)	-3.82	Div. Yield (%) 96e/95	5.6/4.6		
1 Y Wk Avg. (USD m)	158.42			A.S.E. Market Capitalisation - 25/10/96 (USD bn)	24.37
				IPOs & Rights Issues (in USD m) Jan 1 '96-Oct 25 '96	556.71

MARKETS: This Week

EMERGING MARKETS By Farhan Bokhari

Pakistani share rally fizzles out

A 5 per cent rise in Pakistan's share market last week, in response to yet another devaluation of the rupee and austerity measures announced by the government, does not appear to be the start of a sustained rally.

Share prices were beginning to settle on Thursday when Karachi's KSE-100 index closed just 0.12 per cent up after two days of spectacular gains.

Many analysts are convinced the rise was largely because of short covering by traders rather than an end to investors' anxiety. The key index, even now, is down 23 per cent over the past six months. There are many who expect a further currency devaluation, on top of the cumulative 15 per cent adjustment so far this year.

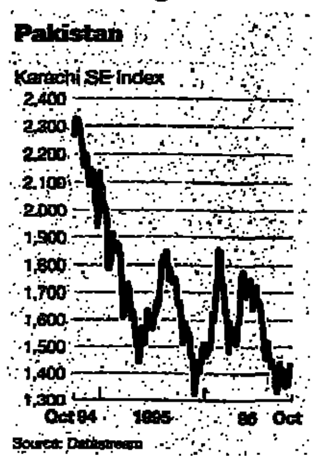
Many investors are attracted to dollar deposits at local banks rather than investment in shares, especially amid growing political and economic uncertainty which is bound to cause further losses on the market.

Pakistan's relatively liberal foreign exchange policies give full freedom to individuals. They can buy dollars from local currency dealers and make deposits in local banks, without having to identify the source of their money. Equally important are the effects of worsening economic prospects in the past two years, and concerns over the future of Prime Minister Benazir Bhutto's government.

Mr Zafar Moti, a leading stockbroker, remembers how exactly two years ago he thought of buying an island, a luxury yacht and even a helicopter. Then, the KSE-100 index was almost 900 points, or roughly 65 per cent higher than now. "Those dreams are no more around me," he says.

Pakistan's deteriorating international trade performance has added to worries over the country's ability to service its foreign and domestic debt, which together stand at about $51bn. During the financial year to June 1996, the trade deficit soared to just over $3bn from $2bn a year before. Unless last year's exports of some $8bn rise substantially, Pakistan may not be able to cope with an expected growth of $2.5bn by the 2000 in its annual oil imports alone.

Given this background, many investors will be watching this week's negotiations between an IMF mission visiting Islamabad and Pakistani finance ministry officials, over the future of a suspended $600m standby loan.



Source: Datastream

The fund has withheld further payments following Pakistan's June 13 budget, as a sign of disapproval of the country's economic policies. An announcement by Moody's, the international credit rating agency, that it would consider lowering Pakistan's international bond rating by one notch is seen as a direct fall-out of the dispute with the IMF. If Islamabad can revive the standby loan, then Moody's may back off too.

A revival of the loan would not solve all Pakistan's economic problems, but it would be an important beginning. Restoration of international confidence in Pakistan's economy would help Islamabad secure further short to medium-term foreign loans and avert the possible balance of payments crisis threatened by the recent depletion of its foreign exchange reserves, to below $800m from $1.7bn in June. The country hopes eventually to attract investors to its privatisation programme, and repay some of its loans through the sale of state-owned companies.

Many analysts also see the market trends as a sign of increasing worries over Pakistan's industrial sector – especially textiles – which makes up one-quarter of the 791 companies listed on the KSE.

In the year to June, large-scale manufacturing grew by a modest 3.1 per cent, or about half Pakistan's 6.1 per cent industrial growth. Trends in the sector are an important sign of the performance of industrial groups listed on the KSE.

Profitability of textiles is largely tied to the price of raw cotton in local markets. This is expected to remain high following reports of crop damage.

Government officials expect this year's crop output to fall to 9.5m 375 lb bales, from earlier estimates of 10.5m bales.

Mr Iqbal Hasan, chief executive of UBS Global Securities in Karachi, says: "There can be no extended rallies in the market, because the fundamentals haven't changed yet."

In spite of predictions by Pakistani officials that last week's measures would narrow the international trade gap and boost foreign exchange reserves, businessmen remain apprehensive. The government's move to kick up interest rates by 3 percentage points and increase the price of gas and electricity by 10 per cent would add to the cost of industrial production.

Many analysts are apprehensive over Ms Bhutto's future. She has been at odds with President Farooq Leghari, who has tried to curtail her powers. Rumours abound that the president may sack the government and replace it with a team of technocrats charged with reviving the economy.

ING BARING SECURITIES EMERGING MARKETS INDICES

Index	25/10/96	Week on week movement Actual	Week on week movement Percent	Month on month movement Actual	Month on month movement Percent	Year to date movement Actual	Year to date movement Percent
World (446)	158.27	-2.62	-1.63	-2.94	-1.82	+10.71	+7.26
Latin America							
Argentina (22)	95.02	-2.60	-2.66	-0.30	-0.31	+2.25	+2.42
Brazil (23)	249.69	-4.10	-1.62	+2.50	+1.01	+63.60	+34.18
Chile (16)	189.03	-1.60	-0.84	-0.70	-0.37	-6.64	-3.39
Colombia (13)	177.10	+2.23	+1.28	+6.79	+3.99	+12.86	+7.83
Mexico (27)	80.52	-1.58	-1.94	-3.60	-4.28	+6.93	+9.41
Peru (12)	1138.55	-9.15	-0.80	-16.43	-1.42	+69.59	+6.51
Venezuela (6)	62.10	+1.08	+1.76	+9.41	+17.86	+34.59	+125.76
Latin America (119)	141.82	-2.28	-1.68	-1.02	-0.72	+18.68	+15.17
Europe							
Czech Rep.(14)	101.38	-0.13	-0.13	-2.87	-2.75	+25.08	+32.87
Greece (20)	116.22	+0.94	+0.81	-4.17	-3.47	+16.25	+16.63
Poland (25)	328.22	-32.82	-9.09	-34.85	-9.60	+127.06	+63.17
Portugal (18)	137.13	+0.74	+0.55	-1.06	-0.77	+20.88	+17.75
South Africa (30)	137.48	-3.35	-2.38	-5.40	-3.76	-15.90	-10.37
Turkey (27)	119.58	-0.69	-0.57	+9.75	+8.88	+36.78	+44.42
Europe (134)	120.77	-2.25	-1.86	-3.47	-2.79	-0.76	-0.63
Asia							
China (26)	45.14	-0.60	-1.31	+1.35	+3.09	+4.82	+11.95
Indonesia (30)	140.42	+0.77	+0.55	-1.92	-1.35	+1.78	+1.28
Korea (23)	97.97	-6.73	-6.43	-5.64	-5.35	-30.93	-20.44
Malaysia (24)	267.81	-1.75	-0.65	+10.06	+3.90	+40.44	+17.79
Pakistan (13)	66.87	-1.82	-2.37	-3.75	-5.31	-6.73	-9.14
Philippines (18)	292.45	-18.72	-6.02	-39.99	-12.03	+33.28	+12.84
Taiwan (31)	173.55	-1.42	-0.61	-4.22	-2.37	+42.73	+32.66
Thailand (28)	177.65	-1.63	-0.91	-20.28	-10.24	-74.24	-29.47
Asia (193)	211.79	-3.35	-1.56	-5.12	-2.36	+8.75	+4.31

All indices in $ terms. January 7 1992=100. Source: ING Baring Securities.

CAPITAL FLOWS By Manuela Saragosa

Asia faces up to investor need for transparency

The need for greater transparency was on the agenda at the joint Asia Development Bank and World Bank sponsored conference on "Private Capital Flows: Implications for Capital Markets in Asia", last week in Bali.

About US$104bn in private capital flows went into Asian markets last year, roughly 62 per cent of all private inflows to emerging markets. There is a need for Asia's markets to ensure these flows are sustainable if investors are to "stop putting in more money rather than pulling everything out" at the least sign of trouble, says Ms Elizabeth Morrissey, managing partner at Washington-based Kleinman International Consultants.

To do that, the region's stock markets will have to improve transparency, develop infrastructures and a large domestic investor base, and foster the independence of self-regulatory organisations.

There is little doubt that private capital inflows will increase exponentially, as ageing populations in developed countries increase the pressure on pension funds to improve their performances. As a result, pension funds are bound to turn to the higher rates of return offered by Asian markets.

The question is whether Asia's stock markets will be able to promote growth and development with these capital inflows without high risk and volatility. Mr Ismail Dalla, president of Washington Asset Management, says: "You've got to have a plumbing system all in place for when the water flows in."

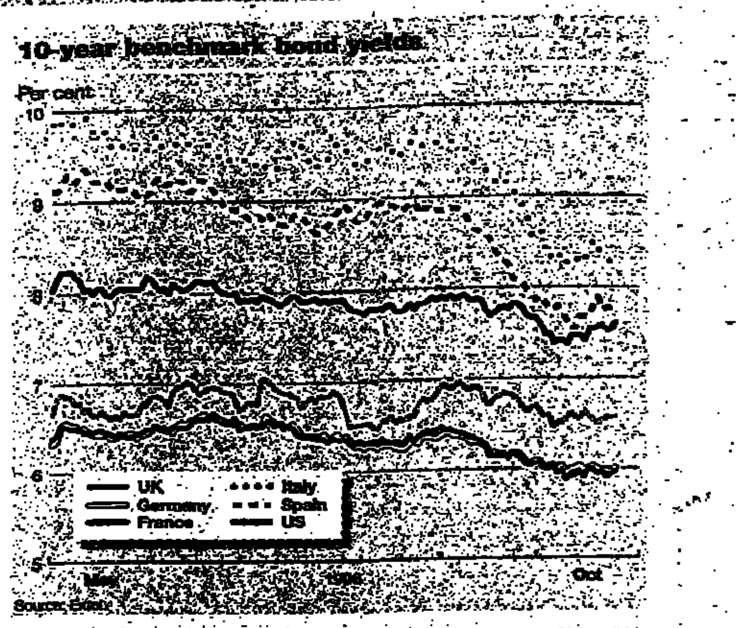
Asia's capital markets vary greatly in their level of development, with east Asia taking the lead over south Asia. Levels of foreign participation also range widely, from 6 per cent in Korea to 50 per cent in Malaysia and Pakistan to more than 80 per cent in Indonesia last year.

But it is generally agreed that those that made the greatest improvements in market depth and activity received the largest capital inflows – mainly Korea, Malaysia, the Philippines, Thailand and Indonesia.

One of the biggest challenges in ensuring the sustainability of those inflows lies in improving disclosure and the enforcement of regulations. Many listed companies in Korea and Indonesia, for example, are still managed by their founders. "It is difficult to preach the importance of corporate governance and protection of minority rights," says Mr In-Kie Hong, chairman of the Korea Stock Exchange.

The concept of "corporate democracy" is still new, and local companies are slowly learning to respect minority shareholders' rights. In the meantime, investors in the region prefer to "vote with their feet" rather than get embroiled in a company's strategy and management. "Foreign investors tend to be passive; they are not seeking shareholder influence," says Mr Philip Gray, executive chairman at HSBC James Capel Asia.

Regulators, however, appear to be aware of this. The Korean exchange, for example, is trying to promote stock option schemes for management so they have as much at stake as minority shareholders. But for foreign institutional investors, it is as important to see regulators enforcing rules as it is to see minimal government interference in the marketplace.



Source: Reuters

INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	5.00	0.50	2.50	4.75	8.25	5.75
Overnight	[illegible]	[illegible]	[illegible]	3.25	7.60	5.75
Three month	[illegible]	[illegible]	[illegible]	3.32	7.53	5.73
One year	[illegible]	[illegible]	[illegible]	3.47	7.06	6.14
Five year	[illegible]	[illegible]	[illegible]	4.96	7.44	7.05
Ten year	[illegible]	[illegible]	[illegible]	5.97	8.16	7.53

[illegible]

INDEX-LINKED BONDS By Samer Iskandar

US pricing key to future performance

Index-linked bonds have performed strongly in recent weeks, but analysts believe their future performance will depend, in large part, on the pricing of similar bonds the US Treasury plans to issue early next year.

Real yields – adjusted for inflation – on index-linked bonds in Australia, Canada and New Zealand have in the past few weeks fallen by 20, 25 and 60 basis points, respectively, to 4.55 per cent, 4.20 per cent and 5.10 per cent.

Index-linked UK gilts, meanwhile, have underperformed. Mr Andrew Roberts, a gilt analyst at UBS, pointed out that the spread between the real yields of Canada and the UK had narrowed by about 20 basis points, to 55 points. "And there is scope for further tightening to around 20 basis points," he added.

Mr Tim Knowles, fixed-income director at Fleming Investment Management, attributes the lack of attractiveness of UK "linkers" to their being expensive in relative terms, yielding between 3.5 and 3.75 per cent throughout the summer.

This situation has shifted demand to the other markets offering such bonds. Mr Roberts pointed out that the latest auction in New Zealand, on October 2, was roughly six times oversubscribed, and that UK investors' participation was high.

Index-linked markets are expected to benefit from US issuance, as the real yield of the new Treasuries becomes the international benchmark. According to forecasts by UBS, Flemings, and Merrill Lynch, this yield will be in the region of 3-3½ per cent, which would lead to a fall in those of most existing bonds.

Mr Roberts at UBS believes Canada is likely to benefit most. "Because of the strong correlation between the Canadian and US currencies, it is not impossible that the Canadian real yield will fall below that of index-linked gilts," he said.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
US DOLLARS							
Südwestdeutsche LB★	300	Nov 1999	5.56#	99.13	5.881	-	Yamaichi Intl(Europe)
Sigma Finance Corp	250	Nov 2001	6.50	99.925R	6.518	+18(W 5yr)	SBC Warburg
KfW International Finance	200	Nov 2002	6.375	99.57R	6.464	+12(W 5yr)	CIBC/DKB/Merrill Lynch
Venantius	200	Nov 2000	6.25	99.7325R	6.328	+11(i)	Yamaichi Intl(Europe)
BNP(a)‡	150	undated	(a1)	99.59R	-	-	CS First Boston
LB Schleswig-Holstein	75	Dec 2000	(b)	100.485R	6.268	+2½(l)	Kredietbank Intl Group
Bayerische Landesbank	1bn	Nov 2001	6.50	100.00R	6.500	+13(W 5yr)	Merrill/Nikko Europe
Federal Farm Credit Banks(d)	500	Nov 1999	6.44#	100.00R	6.440	+39(6%Aug99)	Morgan Stanley Intl
ACCMT, 96-E, Class A(e)‡★	432.5	Nov 2001	(e1)	99.959R	-	-	Merrill Lynch
ABN Amro Bank(Chicago)	500	Oct 2001	6.625#	99.644R	6.711	+40(W 5yr)	ABN Amro/M Stanley
Bankers Trust Co‡	200	Nov 2001	(f)	100.00R	-	-	Bear Stearns Intl
Bank of Western Australia‡	150	Nov 2001	(k)	99.99R	-	-	Paribas Capital Markets
Assocs Corp of Nth America	600	Oct 2001	6.75	99.815R	6.795	+40(W 5yr)	Goldman/Lehman Bros
Kyushu Electric Power	300	Nov 2001	6.50	99.562R	6.606	+22(6¼Oct01)	Merrill Lynch Intl
D-MARKS							
Bawag	250	Nov 2000	4.625	99.68R	4.715	+28(5¼Aug00)	Bayerische Landesbank
Toyota Motor Credit Corp	1bn	Nov 2001	4.875	99.562R	4.976	+5(8¼%Sep01)	Merrill/SBC Warburg
Republic of Argentina(p)	500	Nov 2026	11.75	99.75R	11.78	+497(6¼%-24)	Deutsche Morgan G'fell
Saint George Bank(m)‡	100	Aug 2001	(m1)	99.95R	-	-	UBS Germany
YEN							
Republic of Italy★	100bn	Nov 2016	3.70	100.00R	3.700	-	Nomura International
Republic of Argentina(s)★	50bn	Mar 2005	6.00	99.00R	6.167	-	Nikko Europe
Province of Ontario(q)★	10bn	Nov 1999	5.15	100.00	-	-	Morgan Stanley Intl
SWISS FRANCS							
Asfinag	300	Nov 2001	3.00	101.625	4.715	-	UBS
STERLING							
Prov of British Columbia(s)	200	Dec 2003	7.50	99.575R	7.585	+20(8%Jun03)	Goldman/JP Morgan
GECC(l)	100	Dec 1999	6.75	99.59R	6.781	+15(6%-99)	ABN Amro/Nikko
Homeloans(No 3)Cls A1(f1)‡	135	Oct 2028	(f2)	100.00R	-	-	ING Barings/JP Morgan
Homeloans(No 3)Cls A2(f3)‡	252.1	Oct 2028	(f4)	100.00R	-	-	ING Barings/JP Morgan
CMR, No 2(n)‡	64.5	2006	(n1)	100.00	-	-	Greenwich Capital Mkts
GUILDERS							
Bayerische Hypo(s)	300	Dec 2002	5.375	99.31R	5.508	+20(5¾Sep02)	ING Barings
FRENCH FRANCS							
ING America Insurance	1.5bn	Nov 2003	5.825	99.65R	5.887	+26(6¾%-03)	Morgan Stanley
BNG	1.5bn	Nov 2008	6.125	99.032R	6.242	+13(8½Oct08)	ABN Amro Hoare Govett
Morgan Stanley Group	1bn	Nov 2003	5.875	99.754R	5.919	+42(6¾%-03)	Morgan Stanley
LUXEMBOURG FRANCS							
Crédit Européen	2bn	Dec 2006	(o)	102.50	6.17	-	Crédit Européen-BBL
ITALIAN LIRE							
World Bank(c)	500bn	Nov 2016	zero	23.16	7.598	-	Credito Italiano
European Inv'ment Bank(g)	250bn	Nov 2006	7.875	101.375	7.673	-	BCI/Cariplo/SPaolo/JPM
Crédit Local de France	300bn	Dec 2006	8.125	101.79	7.860	-	Credito/MPS
Dresdner Finance	300bn	Dec 2001	7.40	101.595	7.011	-	BNL/Cariplo/San Paolo
AUSTRALIAN DOLLARS							
Ford Credit Australia	100	Dec 2001	7.50	101.893	7.038	-	ABN Amro Hoare Govett
PESETAS							
Council of Europe(h)	22bn	Nov 2011	5.25	100.475	7.847	-	JP Morgan
SNCF	10bn	Nov 2002	7.00	100.445	6.907	-	Banco Central Hispano
WestLB Finance Curaçao	10bn	Nov 2001	6.80	101.626	6.410	-	Banco Finantia
DANISH KRONER							
Rabobank Australia(j)	500	Dec 2002	6.00	101.825	5.63	-	Generale Bank
NEW ZEALAND DOLLARS							
KfW International Finance	100	Nov 2001	7.50	101.46	7.143	-	DMG/Toronto Dominion
DB Australia	100	Nov 1998	7.75	101.12	7.129	-	DMG/Toronto Dominion

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. ¢With equity warrants. ★Unlisted. #Semi-annual coupon and yield. R: fixed re-offer price. a) Callable from Nov 06 at par. a1) 3-mth Libor +62½bp to Nov 06, then +212½%. b) 5% to 4/12/98, then 8%. c) L1000bn launched 2/10/96 was increased to L1500bn. d) Callable from 5/11/97 at par. e) Advanta Credit Card Master Trust. Legal maturity: 17/5/04. e1) 1-mth Libor +10bp. e2) Class B: $27.5m, 17/12/01, 1-mth Libor +33bp, par. f1) Average life: 1.1 yrs. Callable from Oct 98 at par. f2) 3-mth Libor +6¼bp to Oct 98, then +20bp. f3) Av life: 4.8 yrs. Callable from Oct 99 at par. f4) 3-mth Libor +14bp to Oct 02, then +45bp. f5) Class B: £30.1m, 3-mth Libor +35bp to Oct 02 then +75bp, call from Oct 99, par, 5.7 yrs. f6) Class C: £31.25m, 3-mth Libor +80bp to Oct 02 then +175bp, call from Oct 99, par, 5.7 yrs. g) L500bn launched 8/10/96 increased to L750bn. h) Redemption price: 171.171%. Callable on 26/11/01 at 113.992% and on 26/11/03 at 122.251%. i) Over interpolated yield. j) 3-mth Libor +6¼bp. k) 3-mth Libor +6¼bp. l) Long 1st coupon. m) Fungible with DM200m. m1) 3-mth Libor +15bp. n) City Mortgage Receivables. Legal maturity: 2023. Av life: 4.5 yrs. n1) 1-mth Libor +32bp. o) 5¾% to 18/12/01, then 7% to 18/12/04, then 8½%. p) Callable on 13/11/06 and every 5 yrs at par. q) Redeemed in US$. s) Short 1st coupon. Note: Yields are calculated on ISMA basis.

N.V. De Indonesische Overzeese Bank

US$125,000,000
Floating Rate Notes 1997

The notes will bear interest at 6.2375% per annum for the period 28 October 1996 to 28 January 1997. Interest payable 28 January 1997 will amount to US$1,594.03 per US$100,000 note.

Agent: Morgan Guaranty Trust Company

JPMorgan

NOTICE TO HOLDERS

NOTICE IS HEREBY GIVEN, on behalf of each of the following issuers, that S.G.Warburg & Co. Ltd. will resign as Principal Paying Agent and Conversion Agent ("Agent") where applicable on the following issues:-

with effect from 27th November, 1996

DIXONS GROUP (CAPITAL) PLC
£68,000,000 6 ¼ per cent. Convertible Guaranteed Bonds 2002

GRANADA GROUP PLC
£75,000,000 11 ⅛ per cent. Bonds 2019

HALIFAX BUILDING SOCIETY
£250,000,000 11 per cent. Subordinated Bonds 2014

with effect from 12th December, 1996

PRUDENTIAL FINANCE B.V.
£150,000,000 9 ⅜ per cent. Guaranteed Bonds 2007

With effect from 27th November, 1996 and 12th December, 1996, respectively, all holders of Coupons and Bonds of the above mentioned issues should note that the new Agent will be:-

Morgan Guaranty Trust Company of New York
60 Victoria Embankment,
London EC4Y 0JP

28th October, 1996

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 27.10.96: Pool purchase price £/MWh	Final Prices for Trading on 23.09.96: Pool purchase price £/MWh	Final Prices for Trading on 23.09.96: Pool selling price £/MWh
0030	11.66	8.99	8.99
0100	11.61	8.99	8.99
0130	11.62	8.99	8.99
0100	5.02	-.-	-.-
0130	5.02	-.-	-.-
0200	5.02	8.97	8.97
0230	5.02	8.88	8.88
0300	8.97	8.88	8.88
0330	11.61	8.83	8.83
0400	7.12	8.83	8.83
0430	7.10	8.83	8.83
0500	7.10	8.83	8.83
0530	8.96	8.81	8.81
0600	8.97	8.82	8.82
0630	8.97	8.82	8.82
0700	8.97	8.82	8.82
0730	8.97	8.82	8.82
0800	8.52	8.99	8.99
0830	8.52	9.01	11.07
0900	12.32	9.00	11.06
0930	14.20	9.45	11.51
1000	16.38	14.28	16.34
1030	16.38	14.45	16.51
1100	17.10	14.28	16.34
1130	17.90	17.14	19.20
1200	17.90	17.66	19.72
1230	27.76	17.66	19.72
1300	27.76	17.66	19.72
1330	17.90	14.98	17.04
1400	17.60	14.45	16.51
1430	14.20	14.98	17.04
1500	11.69	9.05	9.05
1530	11.66	9.00	9.00
1600	11.67	9.01	9.01
1630	11.69	9.01	9.01
1700	17.06	9.04	9.04
1730	19.26	13.52	15.58
1800	27.77	13.52	15.58
1830	27.77	13.52	15.58
1900	19.26	20.74	22.80
1930	19.26	14.82	16.88
2000	18.25	20.75	22.81
2030	17.27	20.74	22.80
2100	16.79	20.74	22.80
2130	16.81	19.17	21.23
2200	16.38	14.80	16.86
2230	14.20	14.98	17.04
2300	13.34	14.45	16.51
2330	11.66	13.87	15.93
2400	11.63	13.52	15.58

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.88/MWh becomes 1.688p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6788 between 8:30am and 5:15pm Monday to Friday.

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Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 28.10.96: Pool purchase price £/MWh	Final Prices for Trading on 24.09.96: Pool purchase price £/MWh	Final Prices for Trading on 24.09.96: Pool selling price £/MWh
0030	11.61	8.88	10.52
0100	11.51	8.98	8.98
0130	11.52	8.98	8.98
0200	11.61	8.98	8.98
0230	8.97	8.98	8.98
0300	11.62	8.98	8.98
0330	11.61	8.98	8.98
0400	8.96	8.98	8.98
0430	8.97	8.98	8.98
0500	8.96	8.98	8.98
0530	8.97	8.98	8.98
0600	8.97	9.00	9.00
0630	8.98	9.05	9.05
0700	11.61	9.08	9.08
0730	14.16	10.59	12.21
0800	19.32	14.02	15.78
0830	20.84	15.40	17.66
0900	20.64	16.99	19.67
0930	21.09	20.66	23.40
1000	21.09	33.71	37.97
1030	21.09	37.17	42.10
1100	21.41	38.47	43.78
1130	21.56	39.13	44.67
1200	21.94	40.21	45.96
1230	43.94	41.71	47.84
1300	43.85	39.88	45.50
1330	21.40	35.25	40.30
1400	21.26	22.16	25.56
1430	21.06	18.33	21.13
1500	12.57	17.45	20.12
1530	12.57	17.33	19.89
1600	12.81	17.71	20.40
1630	12.63	19.87	22.93
1700	12.93	25.20	29.26
1730	123.65	28.35	33.22
1800	220.16	28.49	31.55
1830	242.25	23.83	27.35
1900	148.30	16.47	19.01
1930	74.54	28.21	32.21
2000	46.48	29.32	33.42
2030	28.89	27.06	31.02
2100	21.75	46.00	50.54
2130	20.84	17.68	20.31
2200	21.17	15.24	17.58
2230	20.84	14.63	16.35
2300	25.86	14.44	16.09
2330	25.95	10.61	12.19
2400	11.60	10.61	11.71

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.88/MWh becomes 1.688p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6788 between 8:30am and 5:15pm Monday to Friday.

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SOCIETE GENERALE
USD 372 000 000
SUBORDINATED FLOATING RATE NOTES DUE 1998
ISIN CODE: GB0048179654

For the period October 25, 1996 to April 25, 1997 the new rate has been fixed at 6.3375% P.A.
Next payment date: April 25, 1997
Coupon nr: 18
Amount: USD 31 534.03 for the denomination USD 1 000 000

THE PRINCIPAL PAYING AGENT SOCIETE GENERALE BANK & TRUST LUXEMBOURG

Chase Manhattan Corporation
(Formerly Manufacturers Hanover Corporation)
U.S.$100,000,000
Floating Rate Subordinated Notes due 1997

In accordance with the provisions of the Notes, notice is hereby given that the Notes will carry an interest rate of 5.8125% per annum for the period 24th October, 1996 to 24th January 1997 a coupon amount of US$148.54 for the U.S. $10,000 denomination and US$3,713.54 for the U.S. $250,000 denomination and will be payable on 24th January, 1997 against surrender of Coupon No. 48.

Bankers Trust Company, London   Agent Bank

SWEDBANK
(Sparbanken Sverige AB)
US$150,000,000
Undated Subordinated Floating Rate Notes

Notice is hereby given that the notes will bear interest at 7.38281% per annum from 22 October 1996 to 22 April 1997. Interest payable on 22 April 1997 will amount to US$373.24 per US$10,000 note.

Agent: Morgan Guaranty Trust Company

U.S. $75,000,000
SWEDBANK
(Sparbankernas Bank)
Subordinated Floating Rate Notes due 1997

Notice is hereby given that for the three months Interest Period from October 28, 1996 to January 28, 1997 the Notes will carry an Interest Rate of 5.8125% per annum. The Interest payable on the relevant interest payment date, January 28, 1997 will be U.S. $3,713.54 and U.S. $148.54 respectively for Notes in denominations of U.S. $250,000 and U.S. $10,000. The sum of U.S. $148.54 will be payable per U.S. $10,000 principal amount of Registered Notes.

By: The Chase Manhattan Bank London, Agent Bank

October 28, 1996   CHASE

LEGAL NOTICES

In the High Court of Justice
Chancery Division
Companies Court

No 005747 of 1996

IN THE MATTER OF
FAIRBRIAR PROJECTS LIMITED
and
IN THE MATTER OF
THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that a Petition was on 10th October 1996 presented to Her Majesty's High Court of Justice for the confirmation of the reduction of the capital of the above named Company from £40,000,000 to £6,220,677.

AND NOTICE IS FURTHER GIVEN that the said Petition is directed to be heard before the Companies Court Registrar at the Royal Courts of Justice, Strand, London WC2A 2LL on 6th November 1996.

ANY creditor or shareholder of the said Company desiring to oppose the making of an Order for the confirmation of the said reduction of capital should appear at the time of hearing in person or by Counsel for that purpose.

A copy of the said Petition will be furnished to any such person requiring the same by the under-mentioned solicitors on payment of the regulated charge for the same.

DATED this 24th day of October 1996.

Wilde Sapte
1 Fleet Place
LONDON EC4M 7WS
(Ref: MAW/672939/CC129592.01)
Solicitors for the above named Company

LEGAL NOTICES

IN THE MATTER OF
A M FLINT SCENERY COMPANY LIMITED
AND IN THE MATTER OF THE INSOLVENCY RULES 1986

In accordance with rule 4.106 of the Insolvency Rules 1986 notice is hereby given that Nigel Ruddock and Vivian Murray Bairstow of Robson Rhodes, 186 City Road, London EC1V 2NU, were appointed Joint Liquidators of the above company by the members and creditors on 14 October 1996.

Dated 14 October 1996
NIGEL RUDDOCK AND VIVIAN MURRAY BAIRSTOW
Joint Liquidators

All American Communications, Inc.

6¼% Convertible Subordinated Notes due 2003

Notice of Early Redemption

Notice is hereby given to the holders of the 6¼% Convertible Subordinated Notes due 2003 (the "Notes") of All American Communications, Inc. (the "Company") that the Company will redeem all of the Outstanding Notes in whole on November 27, 1996 (the "Redemption Date") at a redemption price equal to 104.643% of the principal amount thereof together with accrued and unpaid interest on such principal amount to the Redemption Date. Interest on the Notes will cease to accrue on and after the Redemption Date. Capitalized terms used herein without definition shall have the respective meanings set forth in the Fiscal Agency Agreement dated as of October 6, 1993 between the Company and the Fiscal Agent.

Notes presented for redemption must be presented in good form and with clear instructions as to whether they are being presented for conversion or redemption at one of the following addresses:

If By Mail:
First Trust National Association
First Trust Center
P.O. Box 64485
St. Paul, MN 55164-9549

If By Hand or Overnight Mail:
First Trust National Association
180 East Fifth Street
Attn: Specialized Finance
4th Floor - Bond Drop Window
St. Paul, MN 55101

If By Hand:
First Trust of New York National Association
100 Wall Street
Suite 2000 - Bond Drop Window
New York, N.Y. 10005

Payment of the redemption price for Notes will be made upon presentation and surrender of the Notes, together, in case of Notes in bearer form ("Bearer Notes"), with all appurtenant coupons, if any, maturing subsequent to the Redemption Date.

The holder of a Note is entitled, at his option, to convert such Note (or any portion of the principal amount thereof which is U.S. $1,000 or an integral multiple thereof) at the principal amount thereof, or of such portion, into fully paid and nonassessable shares of Common Stock, U.S. $0.0001 par value per share, of the Company at a Conversion Price equal to U.S. $11.50 aggregate principal amount of Notes for each share of Common Stock until and including, but not after, the close of business on the Redemption Date, by following the procedures for conversion specified in the Notes.

As of October 24, 1996, the closing price of the Common Stock was U.S. $12.00 per share. Due to the limited public float and trading volume of the Common Stock, there is no assurance that if holders of a significant principal amount of the Notes convert such Notes to Common Stock and sell the underlying shares of Common Stock, there will not be significant downward pressure on and a potential decline in the market price of the Common Stock.

All conditions precedent to the redemption of the Notes have occurred. The last day for holders to surrender Notes for payment is November 27, 1998.

Holders of Notes may contact First Trust Bondholder Services at (612) 973-6700 or Paul Pavlis of All American at (310) 656-1100 with questions regarding the foregoing.

October 28, 1996   First Trust of New York, N.A.

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Oct 25		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	17.1916	+0.1439	844 - 987	17.2024	16.9908	17.1481	3.0	17.0816	2.3	-	-	104.7
Belgium	(BFr)	50.3215	+0.4006	[illegible]	50.3500	49.7680	50.2015	2.9	49.9765	2.7	48.9565	2.7	108.0
Denmark	(DKr)	9.3744	[illegible]	[illegible]	9.3790	9.2843	9.3571	2.2	9.3255	2.1	9.1872	2.0	107.2
Finland	(FM)	7.3158	[illegible]	[illegible]	7.3210	7.2300	-	-	-	-	-	-	85.0
France	(FFr)	8.2501	[illegible]	[illegible]	8.2547	8.1629	8.2334	2.4	8.2027	2.3	8.063	2.2	108.9
Germany	(DM)	2.4436	[illegible]	[illegible]	2.4455	2.4160	2.4381	2.7	2.4268	2.7	2.3789	2.7	107.9
Greece	(Dr)	383.166	[illegible]	[illegible]	383.389	376.926	-	-	-	-	-	-	67.6
Ireland	(I£)	0.9924	[illegible]	[illegible]	0.9940	0.9894	0.9922	0.2	0.9919	0.2	0.9891	0.3	100.2
Italy	(L)	2442.58	[illegible]	[illegible]	2443.73	2427.61	2447.83	-2.6	2456.18	-2.2	2477.58	-1.4	77.2
Luxembourg	(LFr)	50.3215	+0.4006	[illegible]	50.3500	49.7680	50.2015	2.9	49.9765	2.7	48.9565	2.7	108.0
Netherlands	(Fl)	2.7410	[illegible]	[illegible]	2.7426	2.7105	2.734	3.1	2.7207	3.0	2.6622	2.9	108.1
Norway	(NKr)	10.3445	[illegible]	[illegible]	10.3523	10.2440	10.3345	1.2	10.323	0.8	10.271	0.7	98.9
Portugal	(Es)	246.350	[illegible]	[illegible]	246.573	243.741	246.595	-1.2	246.975	-1.0	-	-	96.0
Spain	(Pta)	205.679	[illegible]	[illegible]	205.905	203.593	205.879	-1.2	206.214	-1.0	206.929	-0.6	80.1
Sweden	(SKr)	10.5759	[illegible]	[illegible]	10.5859	10.4564	10.5751	0.1	10.5732	0.1	10.5547	0.1	90.5
Switzerland	(SFr)	2.0247	[illegible]	[illegible]	2.0265	1.9982	2.0172	4.4	2.0034	4.2	1.9423	4.1	109.6
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	89.2
Ecu	-	1.2738	[illegible]	[illegible]	1.2750	1.2612	1.272	1.7	1.2685	1.7	1.2508	1.8	-
SDR†	-	1.10589	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6033	[illegible]	[illegible]	1.6046	1.5908	-	-	-	-	-	-	-
Brazil	(R$)	1.6475	[illegible]	[illegible]	1.6487	1.6319	-	-	-	-	-	-	-
Canada	(C$)	2.1556	[illegible]	[illegible]	2.1575	2.1416	2.152	2.0	2.1449	2.0	2.1186	1.7	85.9
Mexico	(New Peso)	12.7362	[illegible]	[illegible]	12.7582	12.5291	-	-	-	-	-	-	-
USA	($)	1.6041	[illegible]	[illegible]	1.6055	1.5910	1.6033	0.6	1.6022	0.5	1.5952	0.6	97.4
Pacific/Middle East/Africa													
Australia	(A$)	2.0255	[illegible]	[illegible]	2.0266	2.0030	2.0272	-1.0	2.0295	-0.8	2.0354	-0.5	94.2
Hong Kong	(HK$)	12.4025	[illegible]	[illegible]	12.4129	12.3021	12.3984	0.4	12.3955	0.2	12.4065	0.0	-
India	(Rs)	57.1042	[illegible]	[illegible]	57.3650	56.6560	-	-	-	-	-	-	-
Israel	(Shk)	5.2611	[illegible]	[illegible]	5.2698	5.2225	-	-	-	-	-	-	-
Japan	(Y)	181.875	[illegible]	[illegible]	182.040	179.570	181.025	5.6	179.415	5.4	172.63	5.1	126.5
Malaysia	(M$)	4.0202	[illegible]	[illegible]	4.0234	3.9843	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2803	[illegible]	[illegible]	2.2815	2.2574	2.2881	-4.1	2.302	-3.8	2.3405	-2.6	111.5
Philippines	(Peso)	42.1465	[illegible]	[illegible]	42.2260	41.5751	-	-	-	-	-	-	-
Saudi Arabia	(SR)	6.0159	[illegible]	[illegible]	6.0211	5.9670	-	-	-	-	-	-	-
Singapore	(S$)	2.2722	+0.0186	710 - 733	2.2742	2.2529	-	-	-	-	-	-	-
South Africa	(R)	7.4148	+0.1161	096 - 199	7.4199	7.2892	-	-	-	-	-	-	-
South Korea	(Won)	1328.15	+12.5	554 - 077	1330.95	1318.26	-	-	-	-	-	-	-
Taiwan	(T$)	44.2237	+0.3651	687 - 787	44.2855	43.8798	-	-	-	-	-	-	-
Thailand	(Bt)	40.9145	+0.3589	001 - 289	40.9450	40.5500	-	-	-	-	-	-	-

† Rates for Oct 24. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Oct 25		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	10.7176	[illegible]	[illegible]	10.7360	10.6750	10.6978	2.2	10.6578	2.2	10.4626	2.4	104.7
Belgium	(BFr)	31.3715	[illegible]	[illegible]	31.4350	31.2470	31.3065	2.5	31.174	2.5	30.554	2.6	105.8
Denmark	(DKr)	5.8442	[illegible]	[illegible]	5.8609	5.8151	5.8353	1.8	5.8189	1.9	5.7352	1.9	106.8
Finland	(FM)	4.5607	[illegible]	[illegible]	4.5784	4.5400	4.5519	2.3	4.5332	2.4	4.4507	2.4	84.2
France	(FFr)	5.1433	[illegible]	[illegible]	5.1592	5.1230	5.1345	2.0	5.1165	2.1	5.0343	2.1	106.6
Germany	(DM)	1.5234	[illegible]	[illegible]	1.5283	1.5165	1.5204	2.4	1.5136	2.6	1.4836	2.6	107.5
Greece	(Dr)	238.875	[illegible]	[illegible]	239.460	237.700	240.43	-7.8	243	-6.9	254.025	-6.3	67.5
Ireland	(I£)	1.6164	[illegible]	[illegible]	1.6195	1.6085	1.6161	0.2	1.6158	0.1	1.6128	0.2	-
Italy	(L)	1522.75	[illegible]	[illegible]	1531.50	1521.35	1526.56	-3.0	1532.51	-2.6	1548.01	-1.7	76.4
Luxembourg	(LFr)	31.3715	[illegible]	[illegible]	31.4350	31.2470	31.3065	2.5	31.174	2.5	30.554	2.6	105.8
Netherlands	(Fl)	1.7088	[illegible]	[illegible]	1.7119	1.7019	1.705	2.7	1.697	2.8	1.6615	2.8	105.7
Norway	(NKr)	6.4490	[illegible]	[illegible]	6.4670	6.4237	6.4452	0.7	6.4396	0.6	6.414	0.5	98.2
Portugal	(Es)	153.580	[illegible]	[illegible]	153.730	153.220	153.785	-1.6	154.08	-1.3	154.855	-0.8	98.3
Spain	(Pta)	128.225	[illegible]	[illegible]	128.480	127.940	128.405	-1.7	128.685	-1.4	129.33	-0.9	79.9
Sweden	(SKr)	6.5930	[illegible]	[illegible]	6.6091	6.5642	6.5905	0.5	6.5807	0.6	6.5333	0.9	80.3
Switzerland	(SFr)	1.2623	[illegible]	[illegible]	1.2637	1.2543	1.2579	4.1	1.2495	4.0	1.2118	4.0	109.7
UK	(£)	1.6041	[illegible]	[illegible]	1.6055	1.5910	1.6033	0.6	1.6022	0.5	1.5952	0.6	88.1
Ecu	-	1.2593	[illegible]	[illegible]	1.2615	1.2570	1.2607	-1.3	1.2638	-1.4	1.2804	-1.7	-
SDR†	-	0.693588	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9995	[illegible]	[illegible]	0.9996	0.9995	-	-	-	-	-	-	-
Brazil	(R$)	1.0271	[illegible]	[illegible]	1.0273	1.0256	-	-	-	-	-	-	-
Canada	(C$)	1.3439	[illegible]	[illegible]	1.3465	1.3433	1.3421	1.7	1.338	1.8	1.3234	1.5	85.1
Mexico	(New Peso)	7.9400	[illegible]	[illegible]	7.9700	7.9200	8.058	-17.8	8.3245	-19.4	9.185	-15.7	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	98.1
Pacific/Middle East/Africa													
Australia	(A$)	1.2627	[illegible]	[illegible]	1.2640	1.2590	1.2642	-1.4	1.2661	-1.1	1.2716	-0.7	95.8
Hong Kong	(HK$)	7.7320	[illegible]	[illegible]	7.7330	7.7310	7.7319	0.0	7.7325	0.0	7.7435	-0.1	-
India	(Rs)	35.6000	[illegible]	[illegible]	35.7500	35.4450	35.815	-7.2	36.275	-7.6	-	-	-
Israel	(Shk)	3.2798	[illegible]	[illegible]	3.2884	3.2750	-	-	-	-	-	-	-
Japan	(Y)	113.385	[illegible]	[illegible]	113.450	112.820	112.88	5.3	111.885	5.3	107.67	5.0	129.5
Malaysia	(M$)	2.5063	[illegible]	[illegible]	2.5075	2.5031	2.5091	-1.4	2.5145	-1.3	2.5358	-1.2	-
New Zealand	(NZ$)	1.4216	[illegible]	[illegible]	1.4222	1.4189	1.4271	-4.6	1.4314	-2.8	1.4628	-2.9	-
Philippines	(Peso)	26.2750	[illegible]	[illegible]	26.3200	26.2200	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	[illegible]	[illegible]	3.7508	3.7502	3.7508	-0.1	3.7512	-0.1	3.7531	-0.1	-
Singapore	(S$)	1.4165	+0.0003	160 - 170	1.4170	1.4154	1.4143	1.8	1.4098	1.9	1.3885	2.0	-
South Africa	(R)	4.6225	+0.036	200 - 250	4.6260	4.5790	4.6632	-10.6	4.7382	-10.0	5.053	-9.3	-
South Korea	(Won)	828.000	+1.25	500 - 500	829.600	826.500	-	-	-	-	-	-	-
Taiwan	(T$)	27.5700	+0.01	400 - 000	27.6000	27.5300	27.5701	0.0	27.5703	0.0	-	-	-
Thailand	(Bt)	25.5070	+0.022	020 - 120	25.5120	25.4780	25.597	-4.2	25.7645	-4.0	26.402	-3.5	-

† SDR rate per $ for Oct 24. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Oct 24: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

October 25	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3	3 1/4	3 1/4	3 3/8	3 1/2	6.00	2.50	-
week ago	3 1/16	3 1/4	3 1/8	3 1/8	3 3/8	6.00	2.50	-
France	3 3/8	3 1/4	3 7/16	3 3/8	3 1/2	3.35	-	4.75
week ago	3 1/2	3 1/4	3 1/4	3 1/2	3 1/2	3.35	-	4.75
Germany	3	3 1/8	3 1/8	3 1/8	3 1/8	4.50	2.50	3.00
week ago	3 1/8	3 1/8	2 31/32	2 31/32	3 1/8	4.50	2.50	3.00
Ireland	5 5/8	5 3/8	5 3/8	5 3/8	5 3/4	-	-	6.25
week ago	5 5/8	5 3/8	5 3/8	5 1/2	5 1/2	-	-	6.25
Italy	7 3/8	7 3/8	7 1/2	7 3/8	7 1/8	9.00	7.50	8.38
week ago	8 1/8	7 3/8	8	7 1/2	7 1/4	-	8.25	8.38
Netherlands	2 3/8	2 7/8	2 3/8	2 3/8	3 1/8	-	3.00	3.30
week ago	2 3/8	2 7/8	2 7/8	2 7/8	3 1/8	-	3.00	3.30
Switzerland	1 3/4	1 3/8	1 3/8	1 3/8	1 1/2	-	1.00	-
week ago	1 5/8	1 3/8	1 5/8	1 1/2	1 1/2	-	1.00	-
US	5 3/4	5 1/4	5 3/8	5 3/8	5 3/4	-	5.00	-
week ago	5 1/4	5 1/4	5 3/8	5 1/2	5 1/2	-	5.00	-
Japan	7/16	7/16	7/16	7/16	5/8	-	0.50	-
week ago	7/16	7/16	7/16	7/16	5/8	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5 3/8	5 1/2	5 5/8	5 7/8	-	-	-
week ago	-	5 3/8	5 1/2	5 5/8	5 7/8	-	-	-
US Dollar CDs	-	5.10	5.10	5.19	5.41	-	-	-
week ago	-	5.10	5.10	5.19	5.39	-	-	-
ECU Linked Ds	-	4 1/8	4 1/8	4 1/8	4 1/8	-	-	-
week ago	-	4 1/8	4 1/8	4 1/8	4 1/8	-	-	-
SDR Linked Ds	-	3 1/2	3 1/2	3 1/2	3 1/2	-	-	-
week ago	-	3 1/2	3 1/2	3 1/2	3 1/2	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds)

EURO CURRENCY INTEREST RATES

Oct 25	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3 1/32 - 2 31/32	3 1/32 - 2 31/32	3 3/32 - 3	3 1/8 - 3	3 1/8 - 3	3 1/4 - 3 1/8
Danish Krone	3 27/32 - 3 21/32	3 9/16 - 3 7/16	3 19/32 - 3 1/2	3 23/32 - 3 17/32	3 3/4 - 3 19/32	3 29/32 - 3 3/4
D-Mark	3 1/8 - 2 7/8	3 1/16 - 3 1/16	3 3/32 - 3 1/32	3 1/8 - 3	3 1/8 - 3	3 1/4 - 3 1/8
Dutch Guilder	2 15/16 - 2 13/16	2 15/16 - 2 13/16	2 7/8 - 2 13/16	2 15/16 - 2 13/16	2 15/16 - 2 27/32	3 1/8 - 3 1/16
French Franc	3 3/8 - 3 1/4	3 13/32 - 3 5/16	3 7/16 - 3 5/16	3 13/32 - 3 3/8	3 9/16 - 3 7/16	3 5/8 - 3 1/2
Portuguese Esc.	7 - 6 29/32	6 31/32 - 6 15/16	6 31/32 - 6 15/16	6 27/32 - 6 3/4	6 23/32 - 6 5/8	6 21/32 - 6 19/32
Spanish Peseta	6 27/32 - 6 13/16	6 27/32 - 6 13/16	6 29/32 - 6 25/32	6 7/8 - 6 3/4	6 3/4 - 6 5/8	6 11/16 - 6 9/16
Sterling	5 7/8 - 5 3/4	5 13/16 - 5 11/16	5 29/32 - 5 27/32	6 - 5 13/16	6 1/8 - 6 1/16	6 13/16 - 6 11/16
Swiss Franc	1 5/8 - 1 1/2	1 3/4 - 1 5/8	1 11/16 - 1 9/16	1 11/16 - 1 9/16	1 11/16 - 1 9/16	1 3/4 - 1 5/8
Can. Dollar	3 5/8 - 3 7/16	3 1/2 - 3 5/16	3 3/8 - 3 1/4	3 7/16 - 3 5/16	3 13/32 - 3 11/32	3 3/4 - 3 5/8
US Dollar	5 3/16 - 5 1/16	5 1/4 - 5	5 5/16 - 5 7/32	5 1/2 - 5 13/32	5 19/32 - 5 15/32	5 27/32 - 5 23/32
Italian Lira	8 1/8 - 7 1/4	7 13/16 - 7 5/16	7 25/32 - 7 23/32	7 3/4 - 7 23/32	7 9/16 - 7 15/32	7 3/32 - 7 5/32
Yen	1/2 - 3/8	1/2 - 3/8	1/2 - 7/16	7/16 - 11/32	9/16 - 7/16	21/32 - 17/32
Asian $Sing	3 5/16 - 3 3/16	3 5/16 - 3 3/16	3 5/16 - 3 3/16	3 3/8 - 3 1/4	3 3/8 - 3 1/4	3 1/2 - 3 3/8

Short term rates are call for the US Dollar and Yen, others: two days' notice.

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Oct 25		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.63	16.40	4.857	1.971	4855	5.447	20.55	489.7	408.8	21.03	4.024	1.987	4.285	3.188	361.5	2.532
Denmark	(DKr)	53.68	10	8.801	2.607	1.058	2606	2.924	11.03	262.9	219.4	11.29	2.160	1.067	2.300	1.711	194.0	1.359
France	(FFr)	60.99	11.36	10	2.962	1.202	2961	3.322	12.53	298.7	249.3	12.82	2.455	1.212	2.613	1.944	220.5	1.544
Germany	(DM)	20.59	3.836	3.376	1	0.406	999.6	1.122	4.231	100.8	84.17	4.329	0.829	0.409	0.882	0.656	74.43	0.521
Ireland	(I£)	50.73	9.450	8.317	2.464	1	2463	2.763	10.42	248.4	207.4	10.67	2.041	1.008	2.173	1.617	183.4	1.284
Italy	(L)	2.060	0.384	0.338	0.100	0.041	100.	0.112	0.423	10.09	8.420	0.433	0.083	0.041	0.088	0.066	7.446	0.052
Netherlands	(Fl)	18.36	3.420	3.010	0.892	0.362	891.3	1	3.772	89.89	75.05	3.860	0.739	0.365	0.787	0.585	66.36	0.465
Norway	(NKr)	48.67	9.066	7.979	2.364	0.959	2363	2.651	10	238.3	198.9	10.23	1.958	0.967	2.085	1.551	175.9	1.232
Portugal	(Es)	20.42	3.804	3.348	0.992	0.403	991.5	1.112	4.196	100.	83.48	4.294	0.822	0.406	0.875	0.651	73.82	0.517
Spain	(Pta)	24.46	4.557	4.011	1.188	0.482	1188	1.333	5.027	119.8	100.	5.143	0.984	0.486	1.048	0.780	88.43	0.619
Sweden	(SKr)	47.58	8.860	7.798	2.310	0.938	2309	2.591	9.773	232.9	194.4	10	1.914	0.945	2.038	1.516	171.9	1.204
Switzerland	(SFr)	24.85	4.629	4.074	1.207	0.490	1206	1.354	5.106	121.7	101.6	5.225	1	0.494	1.065	0.792	89.83	0.629
UK	(£)	50.32	9.374	8.250	2.444	0.992	2443	2.741	10.34	246.4	205.7	10.58	2.025	1	2.156	1.604	181.9	1.274
Canada	(C$)	23.34	4.348	3.827	1.134	0.460	1133	1.271	4.796	114.3	95.41	4.907	0.939	0.464	1	0.744	84.37	0.591
US	($)	31.37	5.844	5.143	1.524	0.618	1523	1.709	6.446	153.6	128.2	6.596	1.262	0.623	1.344	1	113.4	0.794
Japan	(Y)	27.66	5.153	4.535	1.344	0.545	1343	1.507	5.684	135.5	113.1	5.816	1.113	0.550	1.185	0.882	100.	0.700
Ecu		39.50	7.358	6.476	1.918	0.779	1918	2.151	8.116	193.4	161.5	8.305	1.589	0.785	1.692	1.258	142.8	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	0.6611	0.6595	-0.0006	0.6617	0.6572	16,247	62,895
Mar	0.6650	0.6635	-0.0006	0.6650	0.6617	85	3,551
Jun	0.6683	0.6678	-0.0007	0.6683	0.6669	1	2,444

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	0.8010	0.7970	-0.0028	0.8016	0.7948	11,467	45,971
Mar	0.8055	0.8042	-0.0031	0.8070	0.8026	208	2,553
Jun	0.8102	0.8115	-0.0034	0.8132	0.8100	2	605

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	0.8925	0.8874	-0.0046	0.8928	0.8873	9,898	73,872
Mar	0.9007	0.8989	-0.0047	0.9011	0.8988	283	2,546
Jun	-	0.9105	-0.0048	-	0.9115	25	248

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	1.5934	1.6048	+0.0124	1.6080	1.5898	7,075	55,652
Mar	1.5940	1.6030	+0.0124	1.6070	1.5940	26	301
Jun	-	1.6012	+0.0124	1.6040	-	200	102

■ Pound in New York

Oct 25	—Close —	— Prev. close —
£ spot	1.6050	1.5955
1 mth	1.6043	1.5948
3 mth	1.6030	1.5936
1 yr	1.5964	1.5869

FT GUIDE to WORLD CURRENCIES

The FT Guide to World Currencies table can be found on the Markets page in today's edition.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Nov	CALLS Dec	CALLS Jan	PUTS Nov	PUTS Dec	PUTS Jan
1.580	2.55	3.06	-	0.08	0.59	2.08
1.590	1.76	2.44	-	0.30	1.01	-
1.600	1.10	1.85	3.06	0.57	1.42	2.90
1.610	0.69	1.36	-	1.08	1.94	-
1.570	0.27	0.97	2.23	1.75	2.51	3.99

Previous day's vol., Calls 2,152 Puts 2,586 . Prev. day's open int., Calls 136,553 Puts 106,553

UK INTEREST RATES

LONDON MONEY RATES

Oct 25	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling CDs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bank Bills	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Local authority deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Market deps	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

UK clearing bank base lending rate 5 3/4 per cent from June 6, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2 1/2	5 1/2	5	5	4 3/4

Certs of Tax dep. under £100,000 is 2 1/2pc. Deposits withdrawn for cash 1 1/2pc.
Ave. tender rate of discount on Oct 25, 5.6292pc. ECGD fixed rate Stlg. Export Finance. Make up day Sep 30, 1996. Agreed rate for period Oct 26, 1996 to Nov 26, 1996, Schemes II & III 7.08pc. Reference rate for period Aug 31, 1996 to Sep 30, 1996, Scheme IV & V 5.649pc. Finance House Base Rate 6pc from Oct 1, 1996

BANK OF ENGLAND TREASURY BILL TENDER

	Oct 25	Oct 18		Oct 25	Oct 18
Bills on offer	£200m	£200m	Top accepted rate	5.6785%	5.5753%
Total of applications	£791m	£539m	Ave. rate of discount	5.6292%	5.5519%
Total allocated	£200m	£200m	Average yield	5.7063%	5.6297%
Min. accepted bid	£98.585	£98.610	Offer at next tender	£200m	£200m
Allotment at min. level	32%	27%	Min. accept. bid 93 days	-	-

BANK RETURN

BANKING DEPARTMENT	Wednesday October 23, 1996	Increase or decrease for week
Liabilities	£	£
Capital	14,553,000	
Public deposits	1,009,897,329	-215,969,966
Bankers deposits	2,020,519,791	+124,672,352
Reserve and other accounts	3,211,279,091	-81,359,849
	6,256,249,211	-172,657,463
Assets		
Government securities	1,837,396,280	+619,126,875
Advance and other accounts	2,989,971,559	-124,073,336
Premise, equipment and other secs	1,424,463,476	-667,354,127
Notes	4,295,877	-348,713
Coin	122,019	-10,162
	6,256,249,211	-172,657,463
ISSUE DEPARTMENT		
Liabilities		
Notes in circulation	20,715,704,123	+10,348,713
Notes in Banking Department	4,295,877	-348,713
	20,720,000,000	+10,000,000
Assets		
Other Government securities	9,757,682,357	-1,363,170,480
Other Securities	10,962,317,643	+1,373,170,480
	20,720,000,000	+10,000,000

BASE LENDING RATES

	%		%		%
Adam & Company	5.75	Cyprus Popular Bank	5.75	NatWestminster	5.75
Allied Irish Bank (GB)	5.75	Duncan Lawrie	5.75	•Rea Brothers	5.75
Allied Trust Bank	5.75	Exeter Bank Limited	6.75	Royal Bk of Scotland	5.75
•Henry Ansbacher	5.75	Financial & Gen Bank	7.00	•Singer & Friedlander	5.75
Bank of Baroda	5.75	•Robert Fleming & Co	5.75	•Smith & Williamson Secs	5.75
Banco Bilbao Vizcaya	5.75	Girobank	5.75	Scottish Widows Bank	5.75
Bank of Cyprus	5.75	•Guinness Mahon	5.75	TSB	5.75
Bank of Ireland	5.75	Habib Bank AG Zurich	5.75	United Bank of Kuwait	5.75
Bank of India	5.75	•Hambros Bank	5.75	Unity Trust Bank Plc	5.75
Bank of Scotland	5.75	Heritable & Gen Inv Bk	5.75	Western Trust	5.75
Barclays Bank	5.75	•Hill Samuel	5.75	Whiteaway Laidlaw	5.75
Brit Bk of Mid East	5.75	C. Hoare & Co	5.75	Yorkshire Bank	5.75
•Brown Shipley & Co Ltd	5.75	Hongkong & Shanghai	5.75		
Citibank NA	5.75	Julian Hodge Bank	5.75	• Members of London Investment Banking Association	
Clydesdale Bank	5.75	•Leopold Joseph & Sons	5.75	* In administration	
The Co-operative Bank	5.75	Lloyds Bank	5.75		
Coutts & Co	5.75	Midland Bank	5.75		
Credit Lyonnais	5.75	*Mount Credit Corp	6.00		

FT GOLD MINES INDEX

	Oct 25	% chg since 29/12/95	Mkt Cap $bn	% of Gold Mines	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (31)	1914.17	+0.0	50.83	100.00	1.58	-	2520.73	1722.93
■ Regional Indices								
Africa (13)	2456.52	-1.9	13.16	25.88	3.19	35.17	3553.86	2272.74
Australasia (6)	2186.10	-7.7	5.83	11.48	2.55	21.34	2927.34	2005.75
North America (12)	1726.12	+2.5	31.84	62.64	0.74	64.44	2186.39	1488.94

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1996 High	1996 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
§3	F.P.	7.55	4	4	†Beechcroft	4		-	-	-	13.2
§135	F.P.	47.1	162 1/2	152 1/2	Charles Taylor	161 1/2		L4.2	0.3	3.3	51.3
150	F.P.	29.5	169 1/2	160 1/2	Delcron Electrn	160 1/2		W2.75	2.9	2.1	15.2
§146	F.P.	35.9	246	148	†Elec Retail Sys	170 1/2	-4	-	-	-	-
§	F.P.	11.4	316	305	†Eurasia Mining	305	-7 1/2	-	-	-	-
§80	F.P.	24.9	92 1/2	90 1/2	†Fitness First	90 1/2		bW-	-	-	28.3
100	F.P.	103.5	113 1/2	103 1/2	†Geo Inter Med	103 1/2		-	-	-	-
§	F.P.	-	127	111 1/2	Hartstone 8%	121		-	-	-	-
§100	F.P.	24.9	99 1/2	99	Hlthcare Reform	99 1/2		-	-	-	-
*	F.P.	1,935	429	370 1/2	Imperial Tobacco	371 1/2	-5	W20.0	2.5	6.7	7.4
§	F.P.	55.2	177	165 1/2	Interoute Telecm	165 1/2		-	-	-	-
§285	F.P.	138.8	310	297 1/2	John D Sports	298 1/2		L4.3	2.5	1.8	28.1
§140	F.P.	33.1	160 1/2	145 1/2	Lavendon	155 1/2		R3.4	3.8	2.7	12.1
72	F.P.	27.6	79 1/2	73 1/2	†Loftus Road	74 1/2		-	-	-	-
*	F.P.	43.1	131 1/2	128	Lomond Undrwrtng	130 1/2		-	-	-	-
§10	F.P.	4.32	12 1/4	11 1/4	†Mears Group	12		K0.2	-	2.1	-
-	F.P.	1,046	£16 5/16	£14	Millennium Chem	£14 1/4		Q60c	-	2.7	-
§154	F.P.	19.6	211 1/2	187 1/2	Oriental Rest	205 1/2		-	-	-	23.2
170	F.P.	1,024	177	168	Thistle Hotels	170		R3.7	2.5	2.7	18.3
§250	F.P.	195.0	302	282 1/2	Ultra Electn	300		RW6.5	2.3	2.7	20.3
§	F.P.	104.2	62	52	†Victory Corp	55	-1	-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.38	94.39	+0.01	94.41	94.36	42,769	465,069
Mar	94.30	94.31	+0.02	94.34	94.26	45,450	376,295
Jun	94.14	94.17	+0.03	94.19	94.09	32,053	277,188

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.94	94.95	+0.01	94.96	94.93	102	3,959
Mar	94.79	94.82	+0.01	94.85	94.79	46	1,880
Jun	-	94.69	+0.03	94.69	-	31	1,366

All Open interest figs. are for previous day

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1996 High	1996 Low	Stock	Closing price p	+or-
125	Nil	4/12	12 1/2pm	6 1/2pm	Brooke Tool	7pm	
360	Nil	12/11	8pm	5 1/2pm	Cairn Units	5 1/2pm	-1/2
175	Nil	12/11	15 1/2pm	14 1/2pm	Capital Inds	14 1/2pm	-1/2
100	Nil	7/11	8 1/2pm	4 1/2pm	Celsis Intl	5pm	
265	Nil	2/12	35pm	20pm	Clyde Blowers	20pm	
240	Nil	4/11	125pm	115pm	Prism Rail	122pm	

pm premium.

UK GILTS PRICES

[illegible]

STOCK INDICES

[illegible]

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

Notes	Price	W'k% ch'nge	Div net	Div cov	Dividends paid	Last xd	City line
[illegible]							

BANKS, MERCHANT

[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CHEMICALS - Cont.

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

FOOD PRODUCERS - Cont.

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS

[illegible]

HOUSEHOLD GOODS - Cont.

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

هكذا من الأصل

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

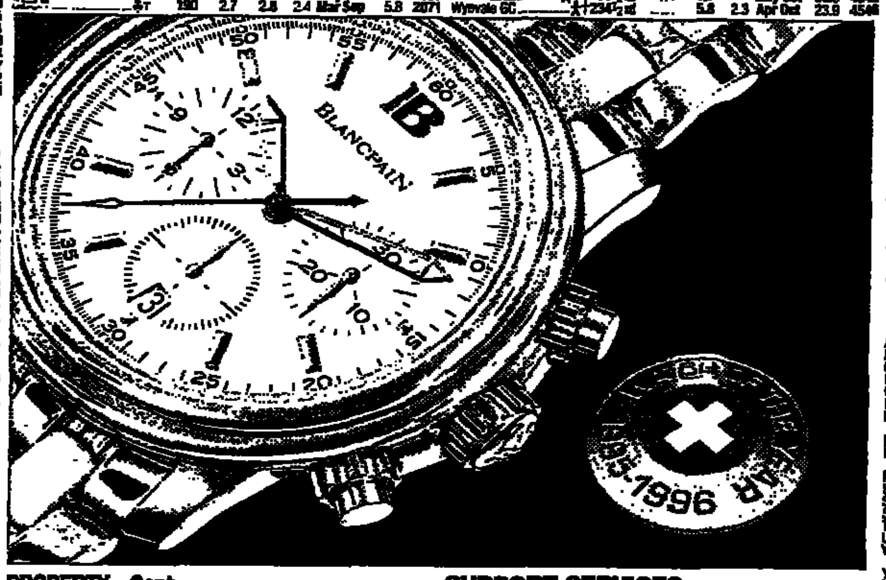
OTHER FINANCIAL

PAPER , PACKAGING & PRINTING

PAPER , PACKAGING & PRINTING - Cont.

PHARMACEUTICALS

PROPERTY



PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

SUPPORT SERVICES

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	W'k% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Anglo Am Ind		£121½xd	-7	0545c	ф	May Oct	2.9	-
Barlow	♠†	859	-3.4	091c	-	Jan Jul	17.6	-
Gold Flds Prop R		1247	-6.6	060c	1.5	Mar Sep	26.2	-
MK Props		62	-3.1	0039c	-	Mar Sep	9.95	-
SASOL	♥	845	....	078c	-	Oct	9.93	-
SA Brews		£18½	-7	0200c	ф	Jul Dec	3.6	4113
Standard Bank		£24½	-3.1	0284c	3.1	Sep Mar	-	-
Tiger Oats	†	780	-	0114c	3.0	Jan Jul	10.6	-
Tongaat-Hulett		780xd	-	0130c	ф	Jan Jun	20.5	-

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are calculated on a "net" basis.

Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

† Interim since increased or resumed
‡ Interim since reduced, passed or deferred
ф Figures or report awaited
♥ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange
♣ Free annual/interim report available, see details below
✣ USM: not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
☆ Price at time of suspension
¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
◆ Merger bid or reorganisation in progress
§ Forecast dividend; cover based on earnings updated by latest interim statement.
♠ Unregulated collective investment scheme

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. ■ Assumed dividend. ‖ Assumed dividend after scrip issue. ■ Interim higher than previous total. ■ Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. z Dividend includes a special payment: Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1996-97. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1995. K Dividend based on prospectus or other official estimates for 1996. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1995-96. N Dividend is paid in whole or part as a FID (Foreign Income Dividend). Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1350 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service: **Additions: Cruden Bay (B&C), Sage (L/Ae), Meikles Africa (R:Gn), Airtech, Personal Numbers, Polydoc, Shalibane, Weeks Grp (AIM). Deletions: Sime Darby (Dvln), Rainford (E&EE), Euro Mng Fin, Gem River, Orion Res, Unisel (Exln), Fairbairn Euro Smlr, River Plate & Gen Wrts (InTr), Korea China Super, Spanish Smlr Cos & Wrts (InCo) and ISS-Intl Systs (SpSv).**

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

	Init Charge	Notes	Selling Price	Buying Price	Yield Gr's	City-Line
Fidelity Currency Funds Ltd						
Pembroke Hall, Pembroke, Bermuda						
A$ Accum			A$18.151		5.80	40887
ASch Accum			Sch248.98		2.00	47544
C$ Accum			C$14.708		2.80	40941
DM Accum			DM38.332		1.80	41228
DFl Accum			Dfl31.689		1.70	40989
ECU Accum			Ecu13.500		3.00	41230
FFr Accum			FFr87.058		2.40	41392
HK$ Accum			HK$121.35		4.20	41318
Lira Accum			L23640		7.30	41395
NZ$ Accum			NZ$39.990		9.00	41544
NKr Accum			NKr112.57		3.40	49049
S$ Accum			S$28.042		2.60	49050
SPta Accum			Pta2738.4		5.60	50124
£ Accum			£13.138		4.70	41646
SKr Accum			SKr121.18		3.70	49054
SFr Accum			SFr79.391		0.50	41550
US$ Accum			$23.535		4.40	41575
Yen Accum			Y2680.5		0.10	41582
Prices for dealing October 25						
Jupiter Tyndall (Bermuda) Ltd						
PO Box HM1250, Hamilton, Bermuda 001 809 292 2760						
Eurobond			$18.09	18.90	3.35	45873
Money (z)			$14.21	14.93	2.48	45872
Mortgage (z)			C$24.14	25.36	7.24	45875
North American			$14.60	15.34	-	45871
Overseas			$18.09	19.01	-	45876
Tiger			$17.11	17.97	-	45877
UK Small Cos			£1.36	1.44	0.09	55186

Newport Investment Management

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

	Init Charge	Notes	Selling Price	Buying Price	Yield Gr's	City-Line
M & G (Guernsey) Ltd						
Westbourne, The Grange, St Peter Port 01481 722683						
Island Global Fd	0		1823.6	1930.6	0.98	45479
Island Gold	0		4220	4473.2	0.094	50128
(Accum. Units)	0		8048.7	8529.5	0.094	45422
Island UK Fd	0		1028.4	1088	3.53	45423
(Accum Units)	0		2523.8	2675.2	3.53	45424
Prudential Fund Managers (Guernsey) Ltd						
Po Box 61, St Peter Port Guernsey 01481 707000						
Prudential Money Funds Ltd						
Managed Sterling			153.1xd	153.2	3.82	45837
Managed Dollar		5	$14.226	14.22	3.68	45838
Dollar Deposit			$10.17	10.18	3.73	45840
Rothschild Asset Management (CI) Ltd						
PO Box 242, St Peter Port, Guernsey 01481 719742/3						
Five Arrows Latin Am Dividend	5		$14.27	15.39	0	44856
Five Arrows International Bond Funds						
FAIB £ Bond	3¼		£21.87	22.36	5.28	47845
FAIB US$ Bond	3¼		$32.71	33.82	6.07	47847
FAIB £ Global	3¼		£17.74	18.34	5.26	44848
FAIB US$ Global	3¼		$30.85	31.90	5.02	44850
Five Arrows International Reserves Ltd						
Five Arrows Currency Fund Ltd						

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

Old Mutual International Fd Mngrs Ltd (d)
9/11 Lower Mount Street, Dublin 2, Ireland 00 3531 6621555

	Selling Price	Buying Price	Yield Gr's	City-Line
OMI Galileo Euro Sbmkt	$1.362		0.00	53550
OMI Galileo Em Asia Eq	$0.887		0.00	-
OMI Galileo Emer Mkt Bd	$1.177		8.88	53549
OMI Galileo Emer Mkt Eq	$1.038		0.00	53548
OMI Galileo Glbl Mgd	$1.375		0.00	49112
OMI Galileo Glbl Spec Mkt	$1.344		0.00	49111
OMI Galileo Glbl Fixed Int	$1.088		5.37	49113
OMI Galileo Sth African Eq	$0.879		0.00	-
OMI Galileo US Dollar Bd	$0.989		5.02	49114
OMIFM UK Gilt Trust	£7.031		6.15	49116

	Selling Price	Buying Price	Yield Gross	City-Line
Berkshire Korea Fund Plc				
NAV	$4.78		-	55026
Blackstone Franks Managers Ireland Ltd				
Blackstone Franks International Bond	£10.00	10.42	-	-
Bordier Invest (Ireland) Ltd				
Invest Korea Fd NAV Oct 25	$58.83		-	48005
Buchanan Asset Management (Ireland) Ltd				
Japan Performance B	$8.3022		-	-
UK Performance	£10.7680		-	-

Prolific International Fund Plc
53 Fitzwilliam Square, Dublin 2
Enquiries 0345 666666 Dealing 0800 269249

	Selling Price	Buying Price	Yield Gr's	City-Line
American F	281.3		0.00	44509
American F	$4.169		0.00	54425
Asia Pacific F	282.0		0.00	44508
Asia Pacific F	$4.189		0.00	54426
China Opportunities F	167.4		0.00	44570
China Opportunities F	$2.670		0.00	54427
European Growth F	300.3		0.00	44568
European Growth F	DM7.310		0.00	54425
Global Growth F	188.7		0.00	49088

	Selling Price	Buying Price	Yield Gross	City-Line
CFP Interest Rate Arbitrage Fund Plc				
NAV	$10.27		0.00	55027
Calpine Fund				
NAV	$108.41		-	55512
Capital Vision Fund Plc				
NAV	$5.41		-	55516

	Selling Price	Buying Price	Yield Gross	City-Line
Hambros Fund Managers (Ireland) Ltd				
Ichiyoshi Asia Market	$10.24	10.76	0.00	45807
Super Asia Volunteer	$9.64	10.13	0.00	45806
Hanson Ireland Ltd				
ASEAN	$9.28		-	-
Asian Market Leaders	$10.80		-	-
Japan Recovery	$9.05		-	-
Hansol Korea Venture Fund				
First Venture Portfolio NAV	$10.36		-	-
Second Venture Portfolio NAV	$9.93		-	-
For Hansard Europe see Offshore Insurances				

	Selling Price	Buying Price	Yield Gross	City-Line
Singer & Friedlander Closed Funds Plc				
Alsa	$7.96		-	-
Societe Generale Group				
SGFAM Strategy Diversifie	FFr537.03		-	-
SGFAM Strategy $ Financier	$101.26		-	-
SGFAM Strategy $ Diversified	$1129.88		-	-
Stellar Fund Plc				
NAV	$1.66		-	53547
Trainer Wortham & Company Inc				
US Growth Fd Plc	$10.12		-	-

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

IRELAND (REGULATED)(**)

	Init Charge	Notes	Selling Price	Buying Price	Yield Gr's	City-Line
Newton Fund Mgrs (CI) Ltd (1200)F 01534 235707						
PO Box 198, St Helier, Jersey						
Newton Universal Growth Funds φ						
Equities						
UK Equity	5½		£2.063	2.188	-	44370
North American	5½		£2.676	2.839	-	44311
Japanese	5½		£1.744	1.850	-	44312
Asian Growth	5½		$4.705	4.989	-	44313
Continental European	5½		$4.292	4.850	-	44314
South East Asia	5½		$17.09	18.13	-	43758
Bonds						
Sterling Bond	3½		£2.385	2.472	6.69	44316
International Bond	3½		£2.614	2.712	4.79	44317
US Dollar Bond	3½		$1.858	1.927	4.71	46442

JERSEY (REGULATED)(**)

JERSEY (SIB RECOGNISED)

هكذا من الأصل

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 45p/minute cheap rate and 50p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on (+44 171) 873 4378.

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 45p/minute cheap rate and 50p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on (+44 171) 873 4378.

OTHER OFFSHORE FUNDS

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Oct 25 / Sch)

BELGIUM/LUXEMBOURG (Oct 25 / Frs.)

CZECH REP (Oct 25 / Koruna)

DENMARK (Oct 25 / Kr)

FINLAND (Oct 25 / Mkk)

FRANCE (Oct 25 / Frs.)

GERMANY (Oct 25 / Dm.)

GREECE (Oct 25 / Drachma)

ITALY (Oct 25 / Lira)

NETHERLANDS (Oct 25 / Fl.)

NORWAY (Oct 25 / Kroner)

POLAND (Oct 25 / Zloty)

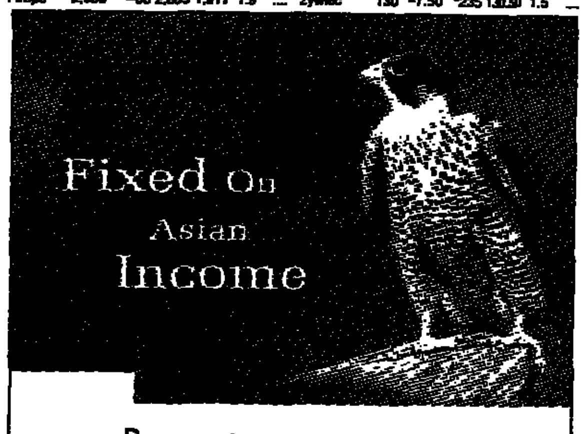
PORTUGAL (Oct 25 / Escudo)

SPAIN (Oct 25 / Pts.)

SWEDEN (Oct 25 / Kronor)

SWITZERLAND (Oct 25 / Frs.)

TURKEY (Oct 25 / Tk Lira)



PACIFIC

JAPAN (Oct 25 / Yen)

HONG KONG (Oct 25 / H.K.$)

INDONESIA (Oct 25 / Rupiah)

MALAYSIA (Oct 25 / MYR)

NEW ZEALAND (Oct 25 / NZ $)

SINGAPORE (Oct 25 / S$)

AUSTRALIA (Oct 25 / Aust$)

SOUTH KOREA (Oct 25 / Won)

TAIWAN (Oct 24 / TW $)

THAILAND (Oct 25 / Baht)

AFRICA

SOUTH AFRICA (Oct 25 / Rand)

NORTH AMERICA

CANADA

TORONTO (Oct 25 / Can $)

4 pm close

MONTREAL (Oct 25 / Can $)

4 pm close

Prices supplied by Telekurs

NOTES – Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. ¶ Calendar year high and low. ‡ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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INDICES

	Oct 25	Oct 24	Oct 23	1996 High		1996 Low	
Argentina							
General(29/12/77)	16518.68	16531.75	16586.53	16881.85	20/5	15297.25	22/8
Australia							
All Ordinaries(1/1/80)	2335.2	2377.6	2346.7	2377.60	24/10	2098.10	17/7
All Mining(1/1/80)	955.9	977.4	988.6	1118.40	8/5	923.10	23/9
Austria							
Credit Aktien(30/12/84)	364.53	367.69	368.91	394.98	31/5	349.19	6/9
Traded Index(2/1/91)	1068.94	1075.25	1081.48	1142.51	28/5	975.27	2/1
Belgium							
BEL20(1/1/91)	1810.07	1811.18	1810.15	1829.86	3/10	1674.90	2/1
Brazil							
Bovespa(29/12/83)	65034.0	65868.0	66496.0	67989.00	21/10	43801.00	2/1
Canada							
Metals Minls(1975)	5225.73	5214.88	5174.78	6624.60	8/5	4667.47	16/1
Composite(1975)	5549.80	5558.90	5576.20	5576.20	23/10	4739.70	15/1
Portfolio(4/1/83)	2748.89	2756.60	2772.77	2772.77	23/10	2327.39	12/1
Chile							
IGPA Gen(31/12/80)	5446.76	5455.49	5439.19	5804.33	8/1	5215.28	8/4
Denmark							
CopenhagenSE(3/1/83)	447.46	448.00	449.53	464.20	21/10	368.40	2/1
Finland							
HEX General(28/12/90)	2236.30	2247.80	2232.29	2265.49	22/10	1661.57	10/1
France							
SBF 250(31/12/90)	1456.15	1449.94	1448.63	1468.67	18/10	1280.16	2/1
CAC 40(31/12/87)	2162.43	2151.62	2148.86	2185.23	18/10	1897.85	11/1
Germany							
FAZ Aktien(31/12/58)	935.70	938.18	944.10	952.86	18/10	813.59	2/1
Commerzbank(1/12/53)	2721.50	2731.50	2745.0	2782.80	18/10	2370.19	2/1
DAX(30/12/87)	2674.22	2678.43	2689.53	2734.82	18/10	2284.86	2/1
Greece							
Athens SE(31/12/80)	922.58	915.49	920.34	1017.98	4/3	872.89	7/8
Hong Kong							
Hang Seng(31/7/64)	12388.38	12473.56	12492.37	12610.85	18/10	10204.87	2/1
India							
BSE Sens.(1979)	3250.56	3250.94	3341.86	4069.28	18/6	2926.88	25/1
Indonesia							
Jakarta Comp.(10/8/82)	571.33	575.88	575.40	630.21	24/4	512.48	2/1
Ireland							
ISEQ Overall(4/1/88)	2659.95	2668.02	2672.33	2700.04	4/10	2234.81	2/1
Italy							
Banca Comm. Ital(1972)	613.51	619.51	622.85	674.10	20/5	572.21	27/3
MIB General(2/1/96)	1040.0	1050.0	1055.0	1142.09	20/5	990.00	27/3
Japan							
Nikkei 225(16/5/49)	20739.97	21003.49	21082.15	22666.80	26/6	19734.70	13/3
Nikkei 300(1/10/82)	291.99	294.56	295.48	319.70	26/6	284.48	11/3
Topix(4/1/68)	1557.76	1571.09	1576.73	1722.13	26/6	1534.12	13/3
2nd Section(4/1/68)	2032.64	2038.78	2042.37	2251.48	2/7	1982.78	14/3
Malaysia							
KLSE Comp.(4/4/86)	1172.96	1177.13	1178.35	1189.54	30/4	993.18	2/1
Mexico							
IPC(Nov 1978)	(c)	3279.21	3264.54	3433.75	27/8	2736.36	8/3
Netherland							
CBS TtlRtnGen(End 83)	689.2	686.3	685.3	696.00	22/10	538.50	2/1
CBS All ShrEnd 83)	404.9	403.1	402.5	408.80	22/10	326.70	2/1
New Zealand							
Cap. 40(1/7/86)	2327.20	2352.91	2320.39	2367.78	21/10	2025.14	7/8
Norway							
Oslo SE(Ind)(2/1/83)	1457.62	1465.39	1453.56	1484.96	15/10	1258.68	30/1
Philippines							
Manila Comp(2/1/85)	2962.60	3041.78	3049.59	3374.40	5/7	2578.97	2/1
Portugal							
BVL 30(4/1/93)	1998.55	1999.67	1999.38	2013.16	9/10	1602.81	2/1
Singapore							
SES All-S'pore(2/4/75)	514.86	512.85	509.58	610.37	5/2	503.78	21/10
South Africa							
JSE Gold(28/9/78)	1723.8	1713.7	1727.8	2030.40	29/3	1348.40	2/1
JSE Ind(28/9/78)	8253.9	8274.0	8281.4	8738.30	25/1	7835.60	30/8
South Korea							
KoreaCompEx(4/1/80)	793.78	804.44	811.98	986.84	7/5	753.36	28/8
Spain							
Madrid SE(30/12/85)	382.80	383.41	381.75	383.41	24/10	323.75	11/1
Sweden							
AffarsvardsGen(1/2/37)	2180.7	2168.3	2172.9	2198.60	21/10	1706.60	22/1
Switzerland							
Swiss Bk Ind(31/12/58)	1784.45	1785.21	1780.34	1803.19	15/10	1516.19	17/1
SBC General(1/4/87)	1268.92	1267.03	1264.00	1285.94	15/10	1114.47	26/1
Taiwan							
Weighted Pr.(30/6/66)	(c)	5453.91	6437.08	6644.66	5/10	4690.22	5/2
Thailand							
Bangkok SET(30/4/75)	938.30	944.51	(c)	1415.04	6/2	905.34	15/10
Turkey							
Istanbul Comp.(Jan 1986)	82422.9	83346.0	83772.3	83772.30	23/10	38779.30	2/1
WORLD							
MS Capital Intl(1/1/70)	791.4	792.8	796.3	801.70	21/10	725.90	15/1
CROSS-BORDER							
Eurotrack 100(26/10/90)	1769.58	1772.46	1777.89	1788.46	21/10	1604.40	11/1
Euro Top-100(26/6/90)	1489.97	1492.74	1497.79	1509.85	18/10	1333.01	11/1
HSBC JC Dragon(31/12/88)	(c)	382.53	382.14	392.86	18/10	344.19	2/1
MS Drags Emrg(7/1/92)	152.27	159.34	159.76	166.91	4/7	147.36	2/1

US INDICES

Dow Jones	Oct 25	Oct 24	Oct 23	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	6007.02	5992.48	6036.46	6094.23 (18/10)	5032.94 (10/1)	6094.23 (18/10/96)	41.22 (8/7/32)
Home Bonds	102.72	102.77	102.68	108.09 (14/2)	100.99 (15/7)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	2126.68	2137.81	2153.35	2296.20 (22/5)	1882.71 (18/1)	2296.20 (22/5/96)	13.23 (8/7/32)
Utilities	223.31	222.89	223.10	234.00 (12/2)	204.86 (30/7)	256.46 (31/8/93)	10.53 (8/7/32)

DJ Ind. Day's high 6047.84 (6080.07) Low 5954.47 (5953.72) (Theoretical†)
Day's high 6020.44 (6039.07) Low 5981.86 (5988.38) (Actual†)

Standard and Poors	Oct 25	Oct 24	Oct 23	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	700.93	702.29	707.27	710.82 (18/10)	598.48 (10/1)	710.82 (18/10/96)	4.40 (1/6/32)
Industrials¥	825.21	827.72	834.21	838.86 (18/10)	702.07 (15/1)	838.86 (18/10/96)	3.52 (30/6/32)
Financial	75.49	75.24	75.54	76.00 (21/10)	58.67 (10/1)	76.00 (21/10/96)	7.13 (4/9/74)
NYSE Comp.	373.26	373.78	375.91	378.32 (18/10)	321.41 (10/1)	378.32 (18/10/96)	4.84 (25/4/42)
Amex Mkt Val	568.79	569.80	570.73	614.99 (22/5)	525.80 (18/7)	614.99 (22/5/96)	29.13 (9/12/74)
NASDAQ Cmp	1222.60	1227.00	1227.88	1268.10 (15/10)	988.57 (15/1)	1268.10 (15/10/96)	54.87 (3/10/74)

■ RATIOS

	Oct 18	Oct 11	Oct 4	Year ago
Dow Jones Ind. Div. Yield	2.12	2.16	2.15	2.42
	Oct 23	Oct 16	Oct 9	Year ago
S & P Ind. Div. yield	1.92	1.92	1.95	2.08
S & P Ind. P/E ratio	23.15	23.13	22.84	17.95

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Cent Ener	10,357,300	9⅝	+⅛
Prem Fmll	6,086,600	21⅞	+⅛
AT&T	5,852,200	38¼	–
Elec Data	5,706,700	46⅝	–1⅞
Micron	4,270,300	28⅛	–1
Chubb	3,455,100	50⅝	+5⅝
Gen Inst	3,164,700	20¼	+1½
Newbdge Net	3,065,100	28¾	–2¼
Pharm Upjhn	2,876,600	38½	+1
Officemax	2,695,000	13⅛	+¼

■ TRADING ACTIVITY

● Volume (million)	Oct 25	Oct 24	Oct 23
New York SE	18.979	415.019	439.836
Amex	364.980	16.728	17.513
NASDAQ	(u)	553.533	562.173
NYSE			
Issues Traded	3,239	3,237	3,239
Rises	1,159	1,119	1,066
Falls	1,157	1,206	1,271
Unchanged	923	912	902
New Highs	102	108	89
New Lows	37	65	61

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
■ CAC-40 (200 x Index)							
Oct	2145.0	2162.5	+5.5	2168.0	2143.0	14,115	19,358
Nov	2151.0	2167.5	+5.5	2171.0	2149.5	982	8,796
■ DAX							
Dec	2683.0	2702.0	+9.5	2706.5	2674.0	17,457	–
Mar	2697.0	2720.5	+11.0	2722.0	2694.0	76	–
■ OMX							
Oct	1685.35	1691.75	+7.25	1692.00	1678.75	3,453	11,493
Nov	1693.50	1706.00	+14.00	1714.50	1682.75	6,340	25,830
■ SOFFEX							
Nov	3735.1	3758.0	+20.0	3768.0	3735.0	3,622	21,543
Dec	3763.0	3768.0	+13.0	3763.0	3763.0	7	551
■ S&P 500							
Dec	703.90	705.35	+1.60	707.80	701.70	80,168	175,840
Mar	710.40	711.75	+1.55	714.00	709.70	220	5,491
■ Nikkei 225							
Dec	20820.0	20770.0	–320.0	20870.0	20720.0	20,060	210,090
Mar	20840.0	20840.0	–250.0	20840.0	20810.0	23	12,112

Open interest figures for previous day.

Sat Oct 19: Taiwan Weighted Price 6431.95; Korea Comp Ex 831.16. Base values of all indices are 100 except: Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen, MIB Gen, SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp/Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 25 Industrials – 264.3; NYSE All Common – 50; and Standard and Poor's – 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ DSB/DAX after-hours index: Oct 25 – 2697.19 +8.35.

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♠ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock, whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ¥ Subject to official recalculation.

■ TOKYO - MOST ACTIVE STOCKS: Friday, October 25, 1996

	Stocks Traded	Closing Prices	Change on day
Nippon Steel Cp	4.9m	334	-4
Toshiba Corp	4.2m	733	+7
NEC Corp	3.7m	1220	
Fujitsu	3.7m	1000	+4
Mitsubishi Hvy	3.6m	885	-11
Sumitomo Seika	3.5m	815	-7
NKK Corp	3.2m	283	-2
Bk Tk-M'bishi	3.0m	2310	+2
Oki Electric Ind	3.0m	671	-46
Kobe Steel	2.9m	277	-16

4 pm close October 25

NEW YORK STOCK EXCHANGE PRICES

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

Continued on next page

4 pm close October 25

NYSE PRICES

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
Continued from previous page										
33⅝	22¾	SchwMaud	0.60	2.0	13	261	29½	29¼	29⅝	-⅛
20½	12	SciAtl	0.06	0.4	182	6599	14¾	14	14⅝	-⅛
24	17	Scotsman	0.10	0.4	13	6	23¾	23¾	23¾	
48⅞	38⅞	Scripps	0.52	1.1	25	1969	46⅝	46½	46⅝	-⅛
18⅛	12⅞	ScudderNAsF	0.02	0.2		31	13⅛	13	13⅛	
14⅛	11	ScudderNEuF	0.16	1.1		235	14	13⅞	14	+⅛
20¾	14¾	SeaCnA	0.77	4.5	23	125	17¾	17¼	17¼	-⅝
16	15	SeaC1.4625	1.46	9.5		3	15⅜	15⅜	15⅜	+¼
69	38⅛	Sgate			31	8428	65⅞	64½	64⅝	-1¼
39⅞	30⅝	Seagram	0.60	1.7	24	1875	36½	35⅞	36	-½
28	17¾	Seagull En	1.20	5.7	50	2331	21¾	20⅞	21⅛	-½
39⅝	28	Sealed Air	0.84	1.6	28	259	u39⅝	39	39⅜	+⅛
53⅞	38¾	Sears	0.92	1.9	18	4269	49⅞	49⅜	49½	-⅜
22¾	19¼	ScCoSBI	1.24	5.7	20	1018	21⅞	21½	21⅞	+⅜
13	11⅞	Seligm Sel x	0.84	6.8		6	12⅜	12⅜	12⅜	
23¾	13⅝	Sensormat	0.22	1.3	12	2901	17	16⅛	16½	-⅝
46½	29½	SequaA	0.60	1.3	52	20	45¼	44⅞	45	
53⅝	36	SequaB	0.50	1.8	60	10	52	52	52	
31¾	19½	ServCp	0.24	0.8	27	3554	29⅛	28¾	28⅞	+⅛
26⅝	19½	ShMdr x	0.68	2.7	15	175	25½	25	25⅛	+⅛
8¼	4⅞	ShdMerch			12	1474	5⅜	5⅛	5¼	
57½	28½	SGSThom			11	497	54	53⅛	53⅛	-⅝
15⅝	10⅝	Shaw Ind	0.30	2.6	29	6933	11⅞	11⅝	11⅝	-⅛
14¾	10⅛	Shelby Wil	0.32	2.3	15	2	13⅞	13⅞	13⅞	-⅛
101½	76⅝	ShellTr	3.28	3.3	21	289	100½	100	100¼	+⅛

1996 High	Low	Stock
54⅛	39⅞	Te[illegible]
21⅞	16⅞	Te[illegible]
7¾	6⅞	Te[illegible]
7½	6¾	Te[illegible]
23¼	18⅛	Te[illegible]
56½	45¾	Te[illegible]
40⅝	34⅛	Te[illegible]
27⅝	11⅛	Te[illegible]
8⅝	4⅛	Te[illegible]
15	11	Te[illegible]
14⅞	8	Te[illegible]
107	75½	Te[illegible]
69¼	50¼	Te[illegible]
59⅝	40½	Te[illegible]
32½	25⅝	Te[illegible]
43¾	38½	Te[illegible]
3⅛	2¼	Te[illegible]
80⅞	69½	Te[illegible]
5½	2½	Th[illegible]
17	11¼	Th[illegible]
27¾	18½	Th[illegible]
44⅞	30½	Th[illegible]
47⅞	22⅞	Th[illegible]
42⅝	33¼	Th[illegible]
23⅞	16¾	Th[illegible]
29½	21½	3[illegible]

[illegible]

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
26	18½	Zurn Ind	0.40	1.6	20	43	25½	25⅜	25½	
11⅜	10½	Zweig Fund	1.05	9.9		360	11	10⅞	10⅞	-⅛
9	8¼	Zweig Tot	0.84	9.9		260	8½	8⅜	8½	

Price data supplied by Telerate

Yearly highs and lows for NYSE reflect the period from Jan 1 1996. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
Dealings suspended.

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AMEX PRICES

4 pm close October 25

[illegible]

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
NumacE		115	15	4$\frac{11}{16}$	4⅝	4⅝	
NVR		6	77	9½	9⅛	9⅜	
Pegasus G	0.10	106	487	10¾	10½	10⅝	-⅛
Penn	0.80	1	53	8½	8¼	8⅜	+⅛
Pittway A	0.33	14	44	46	45	46	
PMC	1.12	12	317	13⅝	12⅞	13⅝	+½
RaganBrad		27	5	31	31	31	
SJW Corp	2.22	7	9	40½	40¼	40¼	+⅛
Tab Prods	0.20	13	111	7¾	7⅜	7½	
Tel&Data	0.40	17	389	37	d35⅝	36⅞	
Thermedics		33	481	21¼	20⅝	20¾	
Thermotrs		25	571	31⅛	30¾	30¾	-¼
TotPtlA	0.30	142	104	10¼	9⅞	10	-¼
TownCntry		4	209	$\frac{13}{16}$	¾	¾	
Triton		0	52	u⅞	¾	⅞	+⅛
Tubos Mex		7	696	11¼	11	11¼	
UtdFoodsA	0.23	58	20	1¾	d1⅝	1¾	
UtdFoodsB	0.20	60	20	1$\frac{13}{16}$	1$\frac{13}{16}$	1$\frac{13}{16}$	
US Cellul		17	463	29¼	28⅝	29⅛	+½
ViacomA		108	798	32⅝	31⅜	31½	-⅝
ViacomB		108	7754	32½	31¼	31⅜	-⅝
WRET	1.12	17	288	12¾	12½	12⅝	-⅛
Xytronix		2	7	1$\frac{7}{16}$	1$\frac{7}{16}$	1$\frac{7}{16}$	

NASDAQ NATIONAL MARKET

4 pm close October 25

[illegible]

FT GUIDE TO THE WEEK

MONDAY 28

EU tackles Helms-Burton

EU foreign ministers in Luxembourg try to overcome Danish opposition to the proposed legal base for EU-wide retaliation against the US Helms-Burton law, which penalises foreign companies that do business with Cuba. Other subjects include the visit by Jacques Chirac, the French president, to the Middle East and relations with Korea and Egypt. On Tuesday there will be a meeting with the foreign ministers of those countries of central and eastern Europe which have applied to join the EU.

Dole looks to California

With President Bill Clinton up to 20 points ahead of him, Bob Dole, the Republican challenger, makes a final, desperate pitch in California during the last full week of the campaign for the US presidential election. An unseemly overture to Ross Perot, who is pulling between five and seven points in the polls, has left Mr Dole looking all the weaker. Mr Clinton, meanwhile, will be concentrating on what ought to be solidly Republican states. The real battle now is for control of Congress.

Beef support plan talks

EU farm ministers, deeply divided over plans to support beef farmers and to ease pressure on the beef market, meet in Luxembourg. The most contentious elements of the package, proposed by Franz Fischler, the European commissioner for agriculture, are the slaughter of more than 2m calves and cuts in cereal aid to pay for the beef crisis. Agreement is expected on only the least contentious issues – such as raising the amount of surplus stock the commission can buy off the market.

Falklands oil licences

The Falkland Islands government announces in London the winning bidders for oil licences in the waters around the islands disputed between Britain and Argentina. This should enable oil exploration to begin in the southern summer. The geological structures suggest the possibility of an oilfield greater in size than the North Sea.

Drugs session opens

Criminal justice systems and their handling of drug cases will be the main focus of the annual session of the International Narcotics Control board, which works under the auspices of the United Nations, in Vienna (to Nov 15).

Asia-Pacific defence forum

Defence officials of 19 Pacific Rim countries and the EU meet in Tokyo (to Oct 31). It is the first such meeting and comes under the Asean Regional Forum, whose three largest members are the world's top defence spenders – the US, China and Japan. This is the only multilateral forum where these countries can discuss security matters. The meeting comes when defence budgets in the region are on the increase and perennial territorial disputes between China, Japan and South Korea have become more heated.

On Thursday, Helmut Kohl will have served 5,145 days to become Germany's longest-serving chancellor since the second world war

Leghari in Kazakhstan

Farooq Leghari, the president of Pakistan, arrives in the central Asian republic of Kazakhstan on a three-day official visit, mainly to discuss Afghanistan. He has already visited Kyrghyzstan and Uzbekistan. The governments in central Asia suspect Pakistan of backing Afghanistan's Taliban Islamic militia, who have captured three quarters of the country. Pakistan denies this. The central Asian states fear the militia might export radical ideas to their own countries.

Queen visits Bangkok

Queen Elizabeth II and the Duke of Edinburgh arrive in Bangkok for a five-day state visit as guests of King Bhumibol and Queen Sirikit. The visit is part of a string of state visits to Thailand by heads of state in honour of the 50th anniversary of King Bhumibol's accession to the throne.

FT Surveys

Swiss Banking; Mexico.

Public holidays

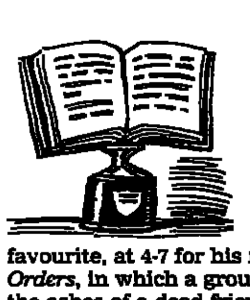
Cyprus, Czech Republic, Greece, Ireland, New Zealand, Syria.

TUESDAY 29

Auction of Nazi loot

The MAK-Austrian Museum of Applied Arts in Vienna is the scene of an auction by Christie's of 878 works of art looted by the Nazis from their Jewish owners during the second world war. The Federation of Austrian Jewish Communities will be the beneficiary of the sale, which is likely to raise £2.4m. The original owners have disappeared, probably killed. The auction is named after Mauerbach, the monastery where the objects have been stored.

Booker Prize announced



The winner of this year's £20,000 Booker Prize for Fiction is announced in London, with Graham Swift the overwhelming favourite, at 4-7 for his novel *Last Orders*, in which a group of men scatter the ashes of a dead friend. Three novels battle at 9-2: Margaret Atwood's *Alias Grace*, a psychological mystery; Beryl Bainbridge's *Every Man for Himself*, set on the Titanic; and Rohinton Mistry's *A Fine Balance*, about modern India. The outsiders are *Reading in the Dark* by Seamus Deane and *The Orchard on Fire* by Shena Mackay.

Summit in Azores

Portugal's socialist prime minister, António Guterres, and his centre-right Spanish counterpart, José Maria Aznar, meet in the Azores islands for their first bilateral summit meeting since their respective general election victories. The agenda is expected to include shared water resources and the policing of fishing boundaries as well as Spain and Portugal's bids to be among the first countries to adopt the single European currency.

FT Surveys

Northern Ireland; Netherlands.

Public holiday

Turkey.

WEDNESDAY 30

Advani in bribe hearing

Lal Krishan Advani, who resigned as president of India's Bahujan Samaj Party after being charged in January with receiving illegal bribes for political favours, faces a court hearing in New Delhi. The charismatic Mr Advani is one of 25 politicians from all parties who were charged. The accused were identified from entries in an encoded diary kept by SK Jain, an industrialist.

Money laundering seminar

A one-day seminar on the prevention of money laundering takes place in Zurich. The seminar, organised by the university of St Gallen, will discuss the impact of preventive legal measures on the financial marketplace and the difficulties of implementing them. The Swiss speakers will include university professors, federal attorneys and directors of banks.

Southern cone trade talks

Government and business leaders from Latin America's southern cone meet in the Brazilian city of Florianópolis to discuss trade issues in the region and beyond (to Nov 1). The programme includes a trade fair and meetings between MPs from the EU and the Mercosur countries (Argentina, Brazil, Paraguay and Uruguay).

Saleroom

What is regarded as the finest collection of clocks to appear on the market in many decades will be auctioned at Christie's in New York, with a second sale in London on November 26. Almost 200 objects will be offered, covering the history of horology between the 17th and the 20th centuries. The highlight is a Louis XVI ormolu and bronze-mounted longcase regulator made by Jean-Antoine Lépine for Gouverneur Morris, the American Minister at the French Court. It is estimated to fetch up to $400,000 (£256,000). The collection was assembled by Francis Vitale.

FT Survey

Polish Service Industries.

THURSDAY 31

Kohl visits Japan

Helmut Kohl, the German chancellor, begins his fifth trip to Japan, a two-day visit which is designed to improve traditionally good relations with Germany's biggest trading partner in Asia. Germany is especially keen to give a new impetus to the Japanese-German council on high technology, a body created in 1993 which has yet to make any real progress.

Rwanda genocide trial

The first trial of a suspect accused of taking part in the genocide which left more than 500,000 Tutsis and moderate Hutus dead in Rwanda is to open in Tanzania. Jean Paul Akayesu will appear before the UN international court in the town of Arusha. As a former mayor, Mr Akayesu controlled the police and gendarmes in Taba, where about 2,000 Tutsis died between April and June, 1994.

Golf

World Open championship, Atlanta, US (to Nov 3).

Public holidays

Germany, Ivory Coast Republic, Slovenia, Taiwan.

FRIDAY 1

Bangladesh test of power

Bangladesh's parliament begins its autumn session in what is likely to prove more than a mere test of the balance of power between the newly governing Awami League and the opposition Bangladesh Nationalist Party. Among the issues expected to be discussed is the repeal of a 1975 indemnity to those involved in a military coup in which Sheikh Mujibur Rahman, the country's founding prime minister, was killed. He was the father of Sheikh Hasina, the current prime minister.

FT Survey

Jordan.

Public holidays

All Saints Day or Day of the Dead in Roman Catholic countries; although several celebrate it on Saturday.

SATURDAY 2

Paris library opens

France's vast new national library opens. *La Bibliotèque nationale de France* or, as it is more popularly known, *La Très Grande Bibliotèque* – architecture's answer to France's *Le Train à Grande Vitesse* – fields a staff of 1,200 and boasts 12m books, mainly kept in four, 20-storey glass towers.

SUNDAY 3

Romanians go to the polls

Romania holds its third parliamentary and presidential elections since 1989. Following its success in local elections, the Democratic Convention, a centre-right coalition, has its strongest chance yet of defeating the Party of Social Democracy, the former communists, at the national level. The convention is not expected to win enough seats to rule alone. In the presidential race, Ion Iliescu, the incumbent, is ahead but well short of the 50 per cent needed to win outright.

Elections in Yugoslavia

Voters go to the polls in Yugoslavia, which now consists of Serbia and Montenegro. The election is for the 138-seat lower chamber of the federal parliament, the republic assembly in Montenegro, and local authorities in Serbia. Governing socialists are facing a coalition of opposition parties fighting under the name "Togetherness". However, an upset for the socialists is not expected in the federal election.

Athletics

New York marathon.

Public holiday

Maldives.

Compiled by Simon Strong.
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ECONOMIC DIARY

Other economic news

Monday: Figures due this week are expected to show German industrial production grew in September after stagnating in July, while retail sales are still expected to have been weak in July.

Tuesday: UK consumer credit figures are forecast to show personal borrowing was weaker in September than in August. The US employment cost index is expected to show wage growth was subdued in the third quarter.

Wednesday: US GDP figures are expected to confirm economic growth slowed in the third quarter. The UK chancellor and governor of the Bank of England hold their monthly monetary meeting against a background of strengthening UK economic growth.

Thursday: The French unemployment rate is expected to have risen slightly last month.

Friday: US non-farm payroll numbers are expected to show a rise in jobs growth. The US NAPM index is forecast to show no significant inflationary pressures. The UK purchasing managers' index should show a continued recovery in industry.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	Japan	Sep retail sales**	**	-1.6%
Oct 28	Canada	Aug fix-weight employee earnings**	**	3.8%
	Sweden	Sep trade balance	SKr9.5bn	SKr9.5bn
Tues	Japan	Sep unemployment rate	**	3.3%
Oct 29	Japan	Sep industrial production†	**	-2.3%
	UK	Sep consumer credit	£850m	£997m
	US	Q3 employm't cost index – civilian***	0.8%	0.8%
	US	Q3 employment cost index – civilian**	**	2.9%
	Canada	Sep indust prod price index*	**	0.4%
	Canada	Sep raw materials price index	**	1.3%
	US	Oct consumer confidence	112.0	111.8
Wed	Italy	Sep hourly wages	4.1%	4.4%
Oct 30	US	Q3 GDP advance	2.1%	4.7%
	US	Q3 GDP deflator advance	2.2%	2.2%
	Spain	Jul unemployment rate (EPA)	**	22.0%
	US	Sep new home sales	775,000	832,000
Thurs	France	Sep unemployment rate	12.6%	12.5%
Oct 31	France	Sep jobseekers†*	0.4%	1.3%
	Denmark	Sep unemployment rate	8.7%	8.8%
	Japan	Sep construction orders**	**	8.6%
	Japan	Sep housing starts**	**	8.6%
	Japan	Sep construction starts**	**	13.6%
	US	Sep personal income	0.5%	0.6%
	US	Sep personal consumer expenditure	0.4%	0.6%
	Canada	Aug real GDP at factor cost*	**	0.5%

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
	US	Oct Chicago Nat Ass Purch Man't	**	0.5%
	US	Oct agriculture prices	**	-0.9%
	US	M1 week ended Oct 21	**	-$5.5bn
	US	M2 week ended Oct 21	**	$1.2bn
	US	M3 week ended Oct 21	**	$14.9bn
Fri	Japan	Oct automobile sales**	**	5.4%
Nov 1	Japan	Oct foreign exchange reserves*	**	0.5%
	US	Oct non-farm payrolls	188,000	40,000
	US	Oct manufacturing payrolls	5,000	-57,000
	US	Oct hourly earnings	0.3%	0.5%
	US	Oct average work week	**	34.7%
	US	Oct unemployment rate	5.2%	5.2%
	US	Sep leading indicators	0.1%	0.2%
	US	Oct Nat Ass of Purchasing Managers	51.5%	51.7%
	US	Sep factory orders	1.0%	-1.9%
	US	Sep factory inventories	**	0.3%
	US	Oct domestic automobile sales	7.3m	7.2m
During the week...				
	Germany	Sep industrial prod all-Germany*	0.5%	0.0%
	Germany	Sep industrial production west*	0.6%	-0.8%
	Germany	Sep industrial production east*	**	6.1%
	Germany	Sep manufacturing output all-Germany	0.2%	0.8%
	Norway	Oct unemployment rate	3.7%	3.9%
	Neth'lds	Q2 GDP final***	1.3%	1.1%

*month on month, **year on year, ***qtr on qtr, †seas adjusted. Statistics, courtesy MMS International.

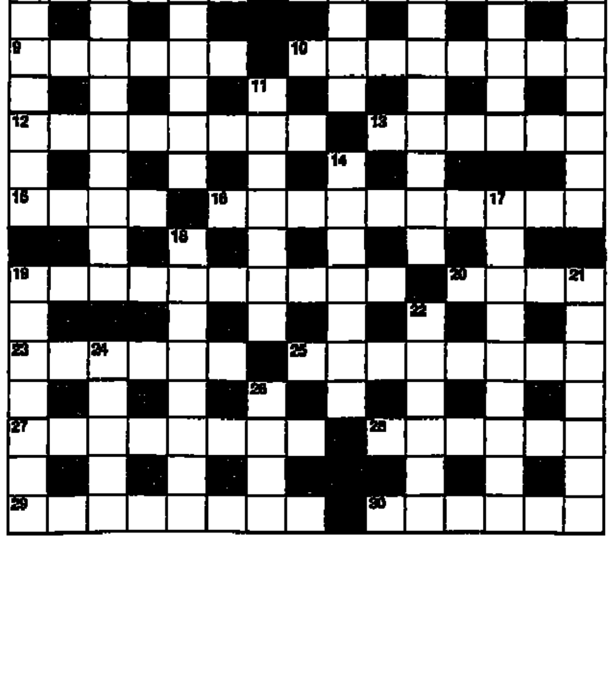
MONDAY PRIZE CROSSWORD

No.9,210 Set by DANTE

A prize of a Pelikan New Classic 380 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday November 7, marked Monday Crossword 9,210 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday November 11. Please allow 28 days for delivery of prizes.

Name..........

Address..........



ACROSS

1 A news broadcast with right to reply (6)
4 Building material for many on a Greek island (8)
9 Frank is able – and proved it (8)
10 Game that leaves one cold (6)
12 A piece from the Financial Times about Steptoe and Son? (8)
13 Go through a new recipe (6)
15 It's about time to revise (4)
16 Foreign money I examine found in order (10)
19 A vehicle drawn up in accordance with the law (10)
20 Hitch horse to pole (4)
23 Is able somehow to get safely down to rock-bottom (6)
25 Beat this for a political slogan (8)
27 The kindly feeling of its beneficiaries? (8)
28 Walton's deceptive appearance (6)
29 Protection of a financial asset (8)
30 Set of six texts put out around the east (6)

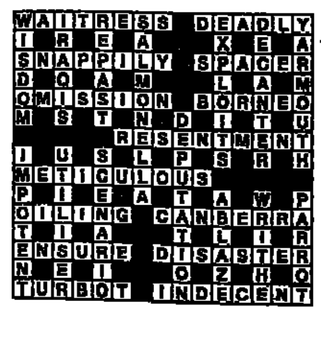
DOWN

1 Chief opponent out of reach (4-3)
2 Excitement as tension explodes (9)
3 Variation in game puzzles people (6)
5 I rose to receive the king – a terrible person (4)
6 The Christian defence against vampires? (8)
7 Bearing the right number (5)
8 Oriental nets are cast differently (7)
11 Beg for something nice to follow in French (7)
14 A denigrator is at the door (7)
17 In agreement? Not I, for one (9)
18 He gives notice (8)
19 Alterations in the bell-ringer's programme (7)
21 Habit of weapon-carrying chap (7)
22 Wild herb found around Virginia (6)
24 One involved in unusual cost was philosophical (5)
26 Plan shows parking place (4)

Winners 9,198

Ann Caygill, Kenton, Newcastle upon Tyne
G. Hanscomb, London W8
Miss D. Holt, Kirkham, Preston
W.R. Lees, Canterbury, Kent
Karen Lonsdale, London SW11
S. Walkley, Woodmarket, Leics

Solution 9,198



JOTTER PAD